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EDITORIAL

As We See It

Economist — Historian — Philosopher — POLITICIAN

This is the time of the year when the President appears as economist, historian, philosopher, and, most of all, master politician. With the President as politician, we do not feel particularly qualified to argue. Politics is an art which may be employed for really constructive ends; it may likewise be made the servant of purposes which must in the end bring only sorrow and suffering to the rank and file. Possibly most often, and we suspect in the current instance, it is employed for the advancement of some individual or party without very clear notions as to what the ultimate public consequences may be— or else self-deception is remarkably easy in this field.

But when the President essays the role of economist, historian or philosopher, what he has to say becomes definitely affected with a public interest. It accordingly appears to us that we could do no better than to devote this space today to certain of the concepts of life and living which the President has of late been expounding — together with some simple inquiry as to the bases upon which these doctrines and ideas appear to rest.

In his so-called Economic Report and in his Message on the State of the Union, the Chief Executive set forth what apparently to him is "the good life," tying such observations closely with some vague sort of five-year plan and a long look ahead over the remainder of this century.

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The Longer-Term Price Trend

By Q. FORREST WALKER*
Economist, R. H. Macy & Co., Inc.

Retail store economist, noting precedents for downward price trends in postwar years, holds it reasonable to expect pressure for reduced prices from current high and, in some cases, distorted levels. Looks for improved production technique to bring about price adjustments, despite high labor costs. Holds taxes are important cause for continued high prices and concludes dominant forces favor long-term downward trend in prices.

Price Factor in Retailing

Few subjects are of greater interest to the merchant than the probable trends of wholesale and retail prices. Whether he estimates sales by informal or formal methods, he must directly or indirectly consider the future trend of transactions and average check. Within certain limits, he can maintain and improve his average check and transactions; but if price changes of substantial amount occur within short periods, merchandising adjustments to maintain volume may be very difficult. Sales are intimately related to the ups and downs of the general price level. Price hazards largely influence inventory policy and they are the basis for the LIFO adjustments. In fact, the successful merchant is a merchant of prices as well as goods because a large part of merchandising art is concerned with finding the most productive prices.

Q. Forrest Walker

Since this audience is generally well informed on the nearby trend of prices for the diverse lines of

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*An address by Mr. Walker at 39th Annual Convention of the National Retail Dry Goods Association Merchandising Luncheon, New York City, Jan. 10, 1950.

The Power Behind The Stock Market

By AMOS B. HOSTETTER
Analyst, Hardy & Co., Members of New York Stock Exch.

Market statistician, maintaining certain underlying factors are exerting upward trend in stock prices, lists as two important forces: (1) increasing optimistic psychology of investor; (2) growth of liquid assets of individuals represented largely by currency in circulation and greater volume of demand and time deposits. Foresees gradual turning of small investors to equity securities.

An examination of the possibilities of the stock market for 1950 reveals certain underlying factors which could exert a powerful upward pull on prices. These factors are sufficiently strong to exert their influence even during a period of moderately lower earnings and dividends. In other words, we do not think that the rate of economic activity will be the primary price making factor in the coming year.

Amos B. Hostetter

To those who have followed market movements in recent years this statement should appear neither startling nor unorthodox. From 1942 to 1946 the Dow Jones Industrial Average advanced from 92 to 212, while the earnings of stocks that comprise the average declined from $12.32 to $10.24. Then, from the 1946 high, the averages declined to 161, in June of 1949, while earnings moved up to $23.91. Granting that excess profits taxes and other unusual factors were at work during this period, the performance of the averages suggests that earnings and dividends are overshadowed by other price-making influences. What, then, are these other price-making influences?

We should like to mention at least two. The first is the psychology of the investor. For example, the 1946 break was heralded as the forerunner of the

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WHAT'S AHEAD FOR BUSINESS IN 1950?—The "CHRONICLE" of Jan. 19, its "Annual Review and Outlook Issue," will include the opinions of over 200 of America's foremost banking and industrial executives on the business outlook for 1950.

The Security I Like Best

Constituting a continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security. Selections may be suitable for individuals, for trustees and for institutions.

Forum Participants and Their Selections

E. I. duPont de Nemours & Co. Common—Gerald S. Colby, du Pont, Homsey & Co., Boston, Mass.

Detroit Edison Co. 3% Convertible Debentures of 1958 — Emerson B. Morgan, Morgan & Co., Los Angeles, Calif.

Boston and Maine Prior Preferred —B. Winthrop Pizzini, B. W. Pizzini & Co., New York City.

Speculative Stocks — Maxwell B. Roberts, Dreyfus & Co., New York City.

Low-Priced Stocks (Selected Issues)—B. K. Thurlow, Minsch, Monell & Co., New York City.

Maine Central 5% Preferred and Common — Albert G. Woglom, A. G. Woglom & Co., Inc., Boston, Mass.

GERALD S. COLBY
Analyst, du Pont, Homsey & Co., Boston, Mass.

The simple statement, "The Security I Like Best," should mean only the security that would fill the requirement of the smallest or the largest investor, the speculator for profit, or the trust fund for income. One that has stood the test of time, one that shows promise of duplicating, (1) past growth, (2) safety, (3) yield, and (4) market performance in the future. A single security purchased at the high of any past market that can be depended upon to ultimately show a profit in the life of any normal investment account. Such a security must have paid dividends through the depression of the early 30s from profitable operations, yet return a comparably favorable yield today. A large order, indeed; not many can fill the bill.

Gerald S. Colby

Such a stock is the common of E. I. du Pont de Nemours & Co. A single purchase of shares bought at the high of the market in 1929 would show a slight profit at the closing price of Dec. 31, 1949, as compared to a loss approximating 48% in the Dow Industrial Average. The dollar averager who invested on a monthly basis the price of a single share at the 1929 high would have been some $8,000 to the good at the high of the market in January of 1934, only 52 months after the original purchase. If this hypothetical averager had stopped buying du Pont in December of 1933, at no time between that date and the present could he have failed to have a profit equivalent to approximately 40% on his investment.

One of the oldest companies in the United States in point of years, du Pont is one of the youngest in point of ideas. It would be difficult for the average person to pass a full normal day without using something originated or manufactured by du Pont.

An investment trust of the highest order through its operation of companies and controlled products, du Pont is a chemical, a textile, an automobile manufacturer through its holdings or more than one-fifth of General Motors, a photo equipment maker, paint manufacturer, a maker of plastics, and a manufacturer of ammunition; a comparative study of the company's balance sheet and statement of operations over a period of time reveals an exhibit of the true "growth company theme."

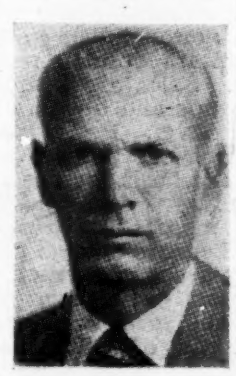
The funded debt of $2 million in 1925 is non-existent now, current assets for 1929 of $170 million, were $406.8 million at the end of 1948, and net working capital had grown from $84.6 million in 1929 to $362.5 million as of June 30, 1949, when cash items alone were 3 times current liabilities and the ratio of CA to CL 7.1 to 1, a triple improvement over the position of 1940. The inventory today represents a higher percentage of current assets than was the case 10 years ago, but the ratio of sales to inventory is higher today than at the earlier date. The company is earning more on invested capital than was the case prewar, and sales quadrupled in the 10-year period just ended with fixed assets over a billion.

No deficit annual operations are apparent in the record since back to the time when the present century was young. Not the oldest dividend payer by any means in the United States, but there have been no omissions since 1904, and the stock is currently selling to yield about 5%, including 1949 extras.

Not the cheapest stock among the chemicals currently, not the stock to buy for the quickest, biggest profit, but, in the opinion of this writer, the one stock to most safely buy at any price, at any time, the present, or the future—the one to safely accumulate and hold—the one that no long-term investment account should be without. I consider du Pont common, which is listed on the New York Stock Exchange, suitable for a large or small investment in both speculative and conservative accounts, for yield as well as growth.

EMERSON B. MORGAN
Morgan & Co., Los Angeles, Calif.

My candidate for the outstanding security of 1950 is one that will fulfill most of the requirements of any investment portfolio. Furthermore, it permits the purchaser to take advantage of some unique tax provisions and at the same time affords him excellent leverage on his investment. The suggestion I will attempt to illustrate is not a new one and can be applied to other types of convertibles as well as other investment securities; but in scanning the field, I feel it is most adaptable at this time to this particular debenture.



Emerson B. Morgan

First, I must assume that the prospective purchaser of these securities is not averse to borrowing money on a sound collateral basis. It is most important to the investor of today to protect himself against the declining purchasing power of the dollar and at the same time to avail himself of any tax saving advantages available to him. Recently, I read a comment by Francis I. duPont & Co. which I thought very apropos on this subject. It is as follows:

"Credit Financing"

". . . Too often the investor will seek to employ his funds in more speculative issues to increase his income to a desired level. This results in the sacrifice of quality. Yet, there is another way by which he can attain his higher return and yet not reduce the quality of his portfolio; that is by investing on credit. Borrowing money is a normal everyday procedure for the businessman in operating his own enterprise."

The security I like the best for the future is the 3% convertible debenture of the Detroit Edison Company maturing Dec. 1, 1958.

The Detroit Edison Company, serving the City of Detroit and its environs, serves a population of over three million. Ninety-six per cent of the revenues of this company are derived from the sale of electricity. Revenues are fairly well diversified. Of the 1948 gross revenues, residential accounted for 34%; industrial, 33%; commercial, 28%; and other sales, 5%. The company enjoys a strong financial position. Net working capital at the end of 1948 amounted to $40,500,000, and fixed charges were covered by the ratio of 3.48. The common stock currently selling at 22 is favorably priced in relation to earnings. Earnings for the 12 months ended Sept. 1, 1949, were $1.89 per share. Currently paying $1.20 per share, the stock affords a yield of almost 5½%.

Detroit Edison Company 3% convertible debentures of 1958, outstanding in the amount of $47,000,000, contain potentialities worthy of investment consideration. The soundness of these bonds, the favorable maturity date, the excellent conversion privilege, plus their tax status, place them in a unique category.

Detroit Edison Company 3% convertible debentures of 1948 contain the three essentials inherent in a good investment, namely, safety of principal, marketability, and a return commensurate with the risk involved. Analyzing this issue from a security standpoint, the bonds have a sound investment status—most services accord an "A" rating. The issue enjoys a broad market, being listed on the New York Stock Exchange and actively traded in the over-the-counter market. In the month of December, 1949, over a half million bonds were traded on the New York Stock Exchange and in addition many large blocks of bonds were traded off board.

An investor purchasing $100,000 par value of Detroit Edison Company 3% convertible debentures can borrow the par value, using the bonds as security for a collateral loan. Currently, money can be borrowed on this basis by qualified borrowers at an interest rate of 2½%. At the current market price of 115, this necessitates a capital outlay of only $15,000. The coupon rate would not only carry the bank loan, but would return the investor approximately 3⅓% on his $15,000. This is a return equal to or better than the return afforded by other securities of a comparable rating.

Each $1,000 debenture is convertible into 50 shares of Detroit Edison Company common stock on or after Dec. 1, 1950. During the past four years the common has had a low of 20 and a high of 28. Conversion remains constant to date of maturity, Dec. 1, 1958, subject to prior redemption. The first callable date of this issue is Jan. 1, 1951, at which time the bonds are callable at 103½. The bonds are convertible up to the close of business of the date of call. To use a hypothetical case, an investor who

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Labor's Fringe Benefits —Investment or Expense?

By EMERSON P. SCHMIDT*
Director of Economic Research
Chamber of Commerce of the United States

Pointing out money in pay envelope is no longer measure of labor costs to employers, Dr. Schmidt lists as additional items: (1) paid holidays and sick leave; (2) voluntary pension program outlays; (3) non-production bonuses; and (4) compulsory payroll levies upon employers. Says these additional payroll costs are not accurately segregated or appraised, and lead to higher consumer prices. Concludes "we are developing a new type of feudalism."

Money in the pay envelope is becoming increasingly a less and less accurate measure of labor costs and of employee income.

The following two statements are becoming more and more evident: (1) When a man is hired today, or a new wage is agreed upon, the wage rate established no longer measures the cost of hiring labor; (2) the number of hours actually worked per week, no longer measures the number of hours for which the employer must pay.

Dr. E. P. Schmidt

This development may be viewed with alarm, with equanimity or even with satisfaction—depending upon one's attitude and vantage point. The important thing is to have the facts—which most employers have not had.

The 40-Hour Week Fiction

When the regular work-week is scheduled to be 40 hours, the actual number of hours worked will normally fall substantially below this, even when 40 hours are paid for.

In the case of Federal Government employees, in addition to eight paid holidays, there are allowances up to 15 days paid sick leave, and 26 days of annual leave or vacation. Since leaves are based on a five-day week, the sick leave amounts to three weeks and the vacation leave to five and one-fifth weeks, or a total of 9.8 weeks, or over 18% of the work-year. This makes a 32.5-hour week for government employees, providing they take the full sick leave, which not all do, although on one Federal Government bulletin board there appeared a list of government workers under the heading: "The following employees will take their sick leaves on the days as indicated!" Sick leave is cumulative for a total of 90 days and annual leave for 60 days. In addition, of course, the taxpayer through the Federal treasury provides innumerable other social and economic benefits, pensions, and so forth.

In industry, in addition to pay for five to eight holidays per year, sick leave and vacation, a number of other payments are widely made for periods of not-working. This may include pay for lunch-time, wash-up time, get-ready time, clothes-changing time and travel time. In some instances bonuses are paid in lieu of vacation at time and a half or double time. A great many employers, as a public service, pay their employees at regular rates when they serve as witnesses, during jury duty, election days, service with the National Guard, and more recently with the defense program.

A good many employers pay shop stewards and members of grievance committees for time in settling disputes and, in some instances, union officials receive full pay while they carry on union activities during working hours.

When all of these items are added together, payments for periods of not-working may amount to sizable totals. Although the scheduled work-week may be 40 hours, the actual input of time may on the average be one, two, or as high as seven or eight hours less than the scheduled period. We think of the 40-hour week as standard in America; for many purposes it would be more accurate to speak of the 35-hour week, or even less.

The average hourly **earnings** in manufacturing reported by the Bureau of Labor Statistics for November, 1949 was $1.39. This figure is derived by dividing gross payrolls including straight time, overtime, incentive pay, pay for sick leave, holidays and vacations (before deductions) by total hours worked including hours paid for holidays, sick leave, and vacations taken and actual hours worked during vacation. Furthermore, some of the items, such as lunch-time, wash-up time, and travel time may be included as being "on the job." Most of the foregoing items do not involve extra outlays or payments in a bookkeeping sense, but are simply absorbed as part of the normal weekly pay.

This, however, may not be true of a whole group of additional labor costs which are handled separately from a bookkeeping standpoint, namely, the benefit programs.

Voluntary Pension Program Outlays

Of these benefit programs perhaps the most important is the pension program. The wartime

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*Address by Dr. Schmidt before the National Retail Dry Goods Association, New York City, Jan. 11, 1950.

How Standard Brands Does Its Selling Job

By ALBERT FLEISCHMANN*
Vice-President, Standard Brands Incorporated

Mr. Fleischmann, after reviewing development of his organization, describes how Standard Brands developed its efficient distributing system. Explains efficiency of sales, advertising and delivery system of the different divisions of Standard Brands and methods of calling on the trade, as well as means employed to train and develop salesmen.

I am going to talk to you a little bit today about Standard Brands Incorporated. Standard Brands Incorporated is a great company. I don't have to tell you that. I hope that you know it. If you do not, if you are not aware of that today, after I am through speaking to you, there is definitely something wrong with me because I am going to try to do a real selling job for Standard Brands, aside from trying to show you, or tell you, at least, a few of the ways and means that we have of getting business.

Albert Fleischmann

Before I tell you about the up-to-date part of our company, I would like to trace its history a little bit, because that is a very interesting history, I believe. Standard Brands Incorporated was organized in 1929, not very long ago, approximately 21 years ago, and it was formed by the merger of three old established companies, the Fleischmann Yeast Co., the Royal Baking Powder Co., and the Chase and Sanborn Tea and Coffee Co.

Origin of Standard Brand Companies

Now, those three companies were, all of them, very highly successful and old companies in American industry. All three of them had romances in their beginning, and the merger could also be called a thrilling romance of American industry. They were all born, if you will, around the Civil War period, back in the early sixties.

As far as the Fleischmann company was concerned, Charles Fleischmann was a stillmaster on a large estate in Hungary. He brewed all the spirits that were drunk on the estate on which he worked.

Yeast was a by-product in his stillhouse, so he learned how to make yeast at a very early age, in the old country. In 1865, he came to America to attend the wedding of his sister and when he arrived here he was very much surprised at the way bakers in this country were making bread, and at what was necessary for the housewife at that time to use to leaven her bread, that she made in the home.

Charles Fleischmann returned to Hungary, after his sister's wedding, and conferred with his brother, Maximilian, and in 1865 they set sail for America.

They stepped off the boat down here somewhere near the Battery, I suppose, and one of them had a test tube in his vest pocket of some fermenting product, the yeast culture, that started compressed yeast in America.

They landed over in Cincinnati and, in 1868, they joined up with a man by the name of James Gaff, and the Gaff-Fleischmann Co. was formed and the first compressed yeast in America was made at the Riverside Plant in Ohio.

Charles Fleischmann, himself, peddled the yeast in a basket. It was not long, however, before, locally, a horse and wagon was running around the streets peddling the yeast. I don't know whether any of you gentlemen remember seeing pictures of the old-time horse and wagon—I think perhaps one or two of you around here today do—but it was a very peculiarly-shaped wagon, and it was the beginning of a distribution system that was built by the Fleischmann company that we are going to talk about in a few minutes.

However, compressed yeast did not spread too generally until a later date, along about 1876, at the time of the Centennial Exposition in Philadelphia. At that time all of the resources of the Gaff-Fleischmann Co. were put into a pot and a model Vienna bakery was established at the exposition, where consumers and tradesmen alike were shown what compressed yeast would do in the manufacture of bread, and how to use it.

As a matter of fact, it was right at that time, we believe, that the first real service of an industry to a tradesman, or another industry, was born, and I would like to read to you a quotation from a circular that was distributed at that exposition, to show you what I mean:

"Bakers will find compressed yeast the most economical and suitable for all purposes. A practical baker will be sent to give instruction in its use, when necessary."

Now, we believe that that was the first time that a service of that sort, to another industry, by an industry, was offered, and that has more than just a passing interest, as far as we are concerned, because our business, the business of Standard Brands Incorporated, today, was built upon—that was one of the points upon which our whole existence was built, our services to those whom we serve.

We have built a most complete service, through the years, that we are going to talk about in just a few minutes. We built a distributing system that we think was a miraculous thing, since it delivered at that time one product—one food product, yeast.

As a matter of fact, we built a distributing service that for years we used to say was second only to the United States Mail. One of our young men, in the early days, made that comment to Julius Fleischmann, then President of the company, and Julius Fleischmann took him to task and said, "What do you mean? You shouldn't make a remark like that, 'second to the United States Mail'."

The young man misunderstood him and thought he meant that one should not compare anything to anything about the United

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*Stenographic report of lecture by Mr. Fleischmann, 14th in a series on Investment Salesmanship, sponsored by Investment Association of New York, New York City, Jan. 5, 1950.

The "Sun" That Was

By ALEXANDER WILSON*

Probable effect on other New York newspaper circulations resulting from the suspension of one of the country's finest newspapers because of labor's exactions and the high costs of production.

Suddenly, without previous public notice, the readers of one of the country's oldest newspapers—The New York "Sun"—read with real regret last week a headline spread across its front page — "The Sun Is Sold."

Alexander Wilson

These four cryptic words epitomized the end of one of New York's best edited newspapers made nationally famous by Charles Anderson Dana and a long line of brilliant newspaper editors and news writers.

The Question of the Hour

To newspaper readers who live in the New York metropolitan and suburban districts and to the newspaper fraternity in particular, the question of the hour is to what extent the remaining two afternoon papers, The New York "World-Telegram and The Sun" and its competitor, The New York "Journal-American," will gain in circulation as a result of the dramatic end of The New York "Sun."

At the date of closing, the "Sun" had about 290,000 circulation and the "World-Telegram" approximately 360,000, while Hearst's "Journal-American" is credited with over 700,000 evening circulation.

Without any pretense, the "Journal-American" is making a strong bid for some of the "Sun's" previous reading constituency by running a heavy headline across its front page, viz: "The Sun's best features are now appearing in the Journal-American," including the nationally read George Sokolsky, political cartoonist Rube Goldberg, and the feature columnist John McClain; and the paper adds this line: "The Journal-American is the only afternoon paper with all three major wire services."

As a rejoinder, the "World-Telegram," which by its purchase, should be the natural heir to "The Sun's" circulation, is also running full-page advertising spreads in the New York "Times" and the New York "Herald Tribune" to inform the newspaper reading public that "ALL the best features of "The Sun" have been added to the "World-Telegram," and the latter paper lists as new acquisitions H. I. Phillips' clever "Sun Dial" column; Grantland Rice, nationally known sports writer; Carlton Shively, the "Sun's" stock market reviewer; J. B. Wallach, of the "Business Affairs" column; Dave Boone's "Quips" and "The Sun's" daily financial page of stock and bond market quotations.

The New York "Post" (now an evening tabloid) is also a contender for the "Sun's" circulation, but in the long run the "World-Telegram" is expected to hold on to the largest part of "The Sun's" old circulation in spite of its competitors.

The Newspaper Picture in N. Y. and U. S. A.

There are only five papers in New York today which were contemporaries of "The Sun" for most of its 117 years of publication, viz: The N. Y. "Evening Post" (now a tabloid), founded by Alexander Hamilton in 1801; the "Journal of Commerce" started by Arthur Tappan, a silk merchant and F. B. Morse, the inventor; the New York "Herald" by James Gorden Bennett in 1835; and the New York "Tribune" (which absorbed the N. Y. "Herald" in 1934) by Horace Greeley in 1841; the N. Y. "Times" by Henry J. Raymond and George Jones in 1851; while the "Commercial & Financial Chronicle," founded by the late William B. Dana and perpetuated by the late Jacob Seibert, began its 111 years existence in 1839, only six years after the "Sun's" advent.

This chronology would not be complete if the following newspaper birthrights were omitted: The "Evening Telegram" was born 1867, and its constituent parts: The N. Y. "Morning World" 1860 and N. Y. "Evening World" 1880.

The morning "N. Y. American's" lineage dates back to 1882 and its constituent the "Evening Journal" to 1896.

The redoubtable Joseph Pulitzer was responsible for the morning and evening editions of the "World" and William Randolph Hearst for the morning N. Y. American" and the N. Y. "Evening Journal." A new publishing giant and newspaper publisher, Roy Howard of the Scripps-Howard chain, now owners of the N. Y. "World-Telegram and The Sun," is looked upon as the coming man in the New York newspaper field.

Without doubt, the radio newscasts have cut into the daily papers' news functions and their advertising revenues, with their hourly and half-hourly news broadcasts which go on the air from 2,000 or more radio stations to 84,250,000 receiving sets in American homes, offices and automobiles. Then again television, with a promise that 20,000,000 sets will be in use by 1954, is another formidable competitor that the newspapers, particularly the picture tabloid papers, as well as radio, movies and theatres, will have to reckon with seriously as a new competitor in dollars and cents returns.

Newspaper management in this country has had, indeed, a tough road to travel these past years since World War II to make ends meet between strikes, labor demands, and other increased production costs.

This state of affairs is sadly evidenced by the small circulation growth that the 1,453 evening papers in the United States have made from 30,911,000 in 1947 to 31,203,000 in 1948 and the 328 morning papers from 20,762,000 to 21,082,000 and 530 Sunday editions from 45,151,000 to 46,308,000 in the same two-year period.

In the twenty-year period (from 1928 to the end of 1948) the shrinkage in the number of newspaper publishing units has been very marked. The 397 morning papers in 1928 have dropped to 328, or a 17.3% loss in 1948; the 1,542 evening papers to 1,453 or 5.80% loss in 1948 while the 522 Sunday editions recorded a small increase to 530 or 1.3% gain in the same period.

The total daily newspaper circulation in the United States stood at 52,285,299 for 1948, a 1.2% increase above 1947 which recorded

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Note—Writer wishes to credit the "Editor and Publisher" Year Book for the circulation figures used in this article.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

The steady pace of industrial output which characterized the recent holiday period continued to be present in the latest week, but the over-all production picture held slightly under the high level attained in the comparable week of 1949.

As was the case in previous weeks, total claims for unemployment insurance again registered a mild upturn in many sections.

In keeping with the customary post-holiday rise, steel ingot production advanced three points to 96.1% of capacity in the past week. This figure placed operations at the highest level since early May of last year and indicated that the mills maintained their regular schedule on Monday following New Year's Day.

Scheduled steel output for the current week is estimated at 97.2%, breaking the record established last week by 1.1 points. This level will also be the highest reached since May 2, last, notwithstanding the fact that walkouts at the soft coal mines have made idle more than 50,000 workers.

In the steel trade this week, we learn from "Steel," a national metalworking magazine, that prices on hard goods are beginning to rise under the impact of the steel advances initiated in December. Higher costs, the magazine adds, are being passed along to ultimate consumers, in some cases. Indicative of the trend, industrial fastener manufacturers are revising discount lists, partially compensating for steel cost increases, which, in some instances, amount to as much as $22 per ton. Other durable goods makers, such as hardware interests, are expected to take similar action once they have fully analyzed the higher steel costs. Warehouse distributors are marking up their quotations, revising quantity brackets and extra charges.

Electric kilowatt production suffered a drop the week ended Dec. 31 of 1.3% from the figure reported a year ago. This decline was due to the fact that Christmas was observed on Monday this year instead of the previous Saturday. As a consequence, there was an additional day on which the various industries throughout the country were shut down. Output the past week, however, was marked by strong recovery.

Carloadings for the week ended Dec. 31, which included the Christmas holiday, were 15.2% below the like 1948 week and 20.5% under the period ended Dec. 24, 1949.

According to the Association of American Railroads, these carriers loaded fewer cars in 1949 than in any of the past ten years. A total of 35,909,741 cars was loaded during the year, a drop of 6,809,087 or 15.9% from the 1948 total. The Association pointed out, however, that in 1949 freight traffic was handled with an all-time record efficiency, with higher average speeds and net ton miles of transportation per hour than ever before.

Despite the Shipper's Advisory Board's forecast of increased railroad freight car loadings in the first quarter of 1950 over the same period 1949, railroad officials contend they see no indications of an early loadings rise.

Less-than-carload freight will continue about 10% below last year's level in January and miscellaneous loadings, now some 13 to 14% under last year, ought to improve slightly.

* * *

On Monday of this week President Truman submitted his budget to the Congress and asked that body to approve government spending of $42,439,000,000 in the fiscal year 1950-51 which begins next July 1. This compares with expenditures totaling $41,858,000,000 recommended by the President last January to cover the 1949-50 fiscal period which ends on June 30, next.

Mr. Truman's latest request, unsurpassed in peacetime, could, it has been reported, result in an operating deficit of $5,133,000,000 in the new fiscal year, and boost the national debt close to $264,000,000,000 by mid-1951. The debt at present is $257,000,000,000 and expectations are that it will reach $258,400,000,000 by June 30 this year.

Without new taxes, Federal income for the coming fiscal year would total $37,306,000,000, Mr. Truman said. But he renewed his request for higher taxes, and said he will go into detail in a special message to Congress soon.

For the current year, the President now expects spending of $43,297,000,000, income of $37,763,000,000 and a deficit of $5,534,000,000.

* * *

U. S. imports in November rose to $592,700,000, up $31,600,000 from October. Commerce Department officials reported the steady climb in imports since July, the low point of the last two years, reflected U. S. recovery from the recession early in 1949 and last September's foreign currency devaluations. U. S. exports in November declined to $835,500,000. This was $13,600,000 below the October total and 21% under the 1948 monthly average.

STEEL OUTPUT CURRENTLY SCHEDULED AT HIGHEST RATE SINCE MAY 2, 1949

Producers of consumer durable goods — autos, refrigerators, washers — are driving wide open this week to keep production at capacity. Some mid-western steel buyers have even revived the old cry that auto companies are putting on too much pressure for steel. In other words, the steel business is booming, states "The Iron Age," national metalworking weekly, in its current report on the steel trade.

Some appliance makers are accusing the auto industry of trying to cram eight months of production into the next four with the result that it is showing up in a bad sheet steel shortage, according to this trade authority. But consumers report that the steel mills have done a fine job of bouncing back from the strike.

Continued on page 32

DEALER BRIEFS

Canton, Ohio

Business sentiment in our area is much improved especially in the clay products industry. We are in a center for the manufacture of building materials, and this trade is looking forward to many years of peak production. It all adds up to better investment sentiment for industrial securities. — *D. E. Shively, Cobbey, Shively & Co.*

Cincinnati, Ohio

Our firm was founded upon optimism and we are still optimistic because during the past year we have successfully tested the municipal and corporate bond markets along with the almost insatiable markets for good investment grades of common and preferred stocks.

We operate in a conservative market area in which our customers look for quality securities. We are finding a good reception for utilities, good over-the-counter industrials and high-grade municipals.

It is our opinion that the coming year will be an active, prosperous year with many underwritings and a stirring stock market. — *C. A. Richards, Field, Richards & Co.*

The past year has been one where we were hard put to find something in which the Cincinnati public would be interested. The dearth of equity financing, plus the limited interest in over-the-counter securities, posed several problems for us as it seemed our public was not interested in securities of any kind outside of municipal bonds.

However, we believe the better market conditions existing during the last 30 days is causing some awakening of interest among conservative Cincinnati investors, and we believe and hope that it will result in better business from now on.—*H. B. Cohle, H. B. Cohle & Co.*

Aside from the insistent institutional demand for high-grade corporate and municipal bonds, we have found the leading Investment Companies are taking their place alongside life insurance and savings institutions as a sound investment medium for every type of investors, large and small. Well-managed investment company securities with good long-term records have shown phenomenal growth. This is due in part to the results they have obtained for investors, and the extensive publicity which has been accorded this field of investment. In our opinion, investment company securities are destined to be a very much more important vehicle for investment as time goes on, for they fill a genuine need.—*A. Edgar Aub, A. E. Aub & Co.*

With Bache & Co.

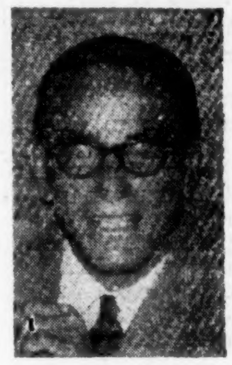
GOLDSBORO, N. C.—William M. Ginn is now connected with Bache & Co. of New York City.

Observations . . . .

By A. WILFRED MAY

To the Aid of the Public Stockholder

Now that the annual meeting-season is on, let us take another look at the status of stockholders vis-a-vis their corporations' managements. This is rendered additionally appropriate this year by reason of several new plans being vigorously advanced for stockholder organization, and because of the revelation of dissension among existing independent shareholder groups.



A. Wilfred May

One frequent trouble with the existing organizations as well as the "lone wolves" acting to protect independent company owners, which lessens their effectiveness, is that the integrity of their motives is suspected by each other as well as by the public. Such distrust is now highlighted by the publicly-aired fight that has been raging within the Investors League and which has resulted in the foundation of a rival organization by one of its two founders and general counsel, Benjamin Javits, on the ground that it is playing the management's rather than the stockholder's game.

Similar criticism has been leveled against the interesting proposal advanced by Mr. Elisha Friedman for the *unionization* of stockholders to be financed out of corporate funds. It is charged that this category of organization would be a paid stooge for anti-labor and anti-government interests, would soft pedal management abuses and constitute a "check-off for reactionary purposes."

On the other hand, individuals whose efforts are largely occupied with attacking corporate abuses as high salaries, inaccessibility of meetings, and directors' non-ownership of stock, are undermined with charges of radicalism, eccentricity, etc.

As a result of the dissension, confusion of purposes, and public relations difficulties, the community of stockholders have never enjoyed the benefit of organization comparable in scope or effectiveness with labor unions for their defense against encroachment by government, by their management officials and by other groups in the community. And so it is that the abuses resulting from the segregation of corporate ownership, and control, as well as from the onslaughts of politics, remain largely uncured!

Toward dealing with both these categories of problems, in lieu of impotent pot-shots the investment trusts, which are reputedly acting as managers and trustees of the small man's capital could make a real contribution. Not only do they have the opportunity and ability to evaluate many controversial management policies, such as officer-compensation, pension plans, auditing practice and the like; but they also have the affirmative responsibility of so fulfilling the functions of their stockholding participants the shirking of which affirmatively disfranchises them.

Brokerage firms, particularly those holding certificates in Street names, similarly have the responsibility to fulfill shareholder functions on behalf of their customers.

Large institutional holders of common stocks, as the fire insurance companies, possess the chance to employ their expert knowledge and facilities constructively in objective scrutiny of the operations and policies of non-stockowning management. This is a service to the public welfare, also their own shareholders, which they have not as yet seemed anxious to perform.

It should be realized that in addition to the difficulty of recognizing and remedying specific corporate abuses, the public stockholder is at a total loss in weighing the intangibles involved in evaluating that elusive investment factor of "management quality." (The extent of this difficulty is reflected in a financial publication's current efforts to make such "ratings" on the basis of its relations with the public.)

Protection of the stockholder segment of the community against encroachment by labor and by government, actually could be afforded by trade organizations like the Association of Stock Exchange firms—and even by more broadly-gauged agencies like the National Association of Manufacturers. Already acting as a pressure group, the NAM's activities to protect the rightful interests of the owners of business would assuredly constitute relevant and unexceptionable furtherance of private enterprise.

Thus far, precious little has been done to organize stockholders, as such, by the existing trade associations, which could have been expected to take the lead, at least in combatting the numerous anti-stockholder policies of the Federal Government.

While awaiting their cooperation, the trusts can in this field too properly perform useful service.

The Outlook: A Shift from Enterprise to Security

By PAUL M. MAZUR*
Partner, Lehman Brothers
Members of the New York Stock Exchange

Prominent investment banker, in reviewing economic changes of last two decades, sees shift of emphasis from enterprise to security, from production to consumption. Says it means promotion and protection of consumer markets in terms of purchasing power, leading to more instalment purchasing and new and more progressive forms of retailing.

Over the last two decades, there have been many changes which had direct effects upon retail distribution and probably will have still greater effects in the future.

Paul Mazur

There have been substantial changes in the distribution of national income. Higher incomes have shrunk in terms of their net increase under the impact of higher income taxes and higher prices.

Over the decade from 1937 to 1947, Federal taxes and the depreciation of the dollar resulted in a 40% loss of real income to the man in the $5,000 income bracket. Those grossing $10,000 a year had a 50% bite taken from their dollar earnings, and those in the $50,000 range suffered a 66⅔% loss of real income.

Wages to workers have risen from 170% in dollars, and 97% in the form of Real Purchasing Power between 1929 and 1949.

Farmers' net income has increased in that period 146% in dollars — purchasing power has increased 80%.

The Federal expenditure has increased in those twenty years from $3.9 billion annually to $43.5 billion; government employees as a force have risen from 590,000 to 2,000,000. Membership in trade unions totalled 3.6 million in 1929, and is approximately 15.6 million in 1949.

These statistics are mentioned because they represent factors in the increase of what adverse critics of today's trends call rigidities, and advocates call stabilities, in our economy. They mean that so-called freedom of economic forces has become subject to great restraints, for either the good or bad result inherent in those restraints.

However, the factors seeking stabilization include additional elements—

(a) The Federal Deposit Insurance.

(b) The Parity Plan for the farmers, which purports to put a floor (though not a ceiling) under the prices of some farm products, relating their prices to those which the farmer pays for his purchases.

Both of these reduce the need of savings in banks and of money kept in sox or tea bowls.

(c) Government aid to Europe, the Far East, South America, and the backward nations.

(d) Social Security

(e) Unemployment Insurance.

(f) Welfare and Pension Funds

These factors in our political scene, some of which have been long overdue, are like annuities. They are assurances to the people and to the economy of the right to consume without the necessity of wages that come from direct employment and production. They represent, in a very important sense, subsidized consumption.

Moreover, even the economy as a whole and its production levels, and its employment probabilities, have undergone changes that bring with them increased stability or rigidities (depending upon which way your own bias causes you to see them).

In 1929, the last "golden year" of the "gold era," the dollar national income was $87.4 billion. At that time, corporate capital expenditures amounted to $11 billion. Federal, state and local governmental expenditures were $10.2 billion. Today the income is approximately $220 billion. Corporate capital expenditures approximates $27 billion. Direct governmental expenditures will be about $55 billion. The story of the change in the roles to be played by private enterprise and public enterprise is so dramatic that even those who run should be able to read.

The government expenditures, to a very important degree, place emphasis upon consumption, not production. Therefore, they too support consumption independent of production, and offer another element to subsidized consumption.

Nation Shifts From Enterprise to Security

It must be very clear that our nation has shifted its emphasis from enterprise to security, from production to consumption. This is a most important change with far reaching social, political, and philosophical consequences. Our interest at the moment is only in some of its economic influences.

Surely it means the promotion and protection of consumer markets, in terms of the factors of purchasing power.

To convert that power into actual purchases, it can be expected that there will be exerted the sales promotion efforts of American business appealing to the average American's right and desire for better and better standards of living. Eight years of disuse in a buyers' market have dulled the eye and rusted the tools of sales management; but necessity and competition will change this for the successful, and destroy the unsuccessful.

To convert the potential of purchasing power into actual purchases, the "five-day week" offers the dynamics of new habits of living, both in location and kinds of goods. The five-day week doubles the historic one day of rest into two days of leisure; and leisure time, not working hours, create most of the bases and most of the needs of consumption.

Another element of dynamics to convert purchasing power into purchases historically lies in the use of the installment device. Installment buying (or fractionalized selling, as I see it) played an important part in building an automobile industry, and other durable goods industries into huge mass volumes. This credit instrument as a selling device is destined to grow. The effects upon the economy will be great in total and particularly significant in their relation to the various sections of the American families' priority in purchasing different classes of goods as represented by durable goods, food, rent, and soft goods.

In conclusion, I would say that it would appear that the economy will offer more emphasis on consumption and more elements of stability or rigidity which in turn contributes to larger consumers' markets; that the installment method will be increasingly important. The retailer will have to compete with the sellers of food, and particularly transportation and shelter. He will find new forms of retailing growing in the increased tempo of decentralization and the inclusion of new lines by old sellers. Drug stores and specialty stores and food chains will add new lines from cosmetics to dry goods.

The strength of the departmental store will continue to prove itself. The only question will be: Who will use the agency best—the older department store managements, or the newer users of the departmental store as a tool?

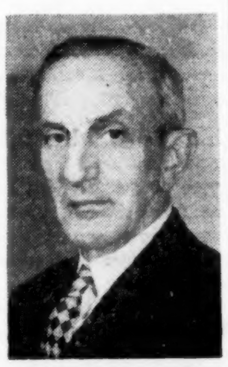
It is unfortunate that the word "store" is the name given this retail outlet. "To store" is "to keep." The function of the retail outlet is "to sell." Too much emphasis has been placed on buying; too little on selling. The art of selling must be again learned—or even learned, in a sense, for the first time—so different must its form and content be from what the past has offered.

But a buyers' market, if as huge as that in our American domestic economy, offers rich prizes to the winners in a competitive system, and richer rewards to its real beneficiaries—the men and women who make up its citizenship.

*An address by Mr. Mazur at the Merchandising Division Session of the 39th Annual Convention of the National Retail Dry Goods Association, New York City, Jan. 10, 1950.

Schwarting, Others Join Albert Frank

William V. Schwarting, who has been responsible for the operation of the Wall Street office of J. Walter Thompson Co. for many years, and his associates in handling financial advertising there, have become affiliated with the national advertising agency of Albert Frank-Guenther Law, Inc., 131 Cedar Street, New York City, where they will be in a position to service clients as heretofore. Mr. Schwarting has been elected a Vice-President in his new connection.



Wm. V. Schwarting

Mr. Schwarting's entire business career has been in the field of financial advertising. Many of the prominent banks and investment firms in Wall Street have entrusted their advertising and public relations matters to him. His father became associated with the late Albert Frank when Albert Frank & Co. was organized in 1872 and continued in that association until his death in 1927.

William Schwarting's son, Robert W. Schwarting, is joining his father, making the third generation of the family in the financial advertising field.

This announcement coincides with the closing of the Wall Street office of J. Walter Thompson Co.

With Ira Haupt & Co.

Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange, announce that Charles E. Bacon is now associated with the firm as manager of its Mutual Funds Department.

The Economic Outlook

By CHARLES T. BRODERICK*
Economist, Lehman Brothers
Members, New York Stock Exchange

Maintaining business will not be subjected in immediate future to the inventory liquidation of 1949, Mr. Broderick bases forecast of slightly rising activity in next few months to increased consumer income. Foresees, however, some decline in second half of year in consumer spending due to increased setting aside of reserve funds for pensions. Predicts falling off in residential and plant construction, and end of goods scarcity of postwar years.

One of the best jumping-off places for a judgment about what the national economy is **going to do** is an appraisal of what it just **did** in weathering the recent recession. From October 1948 to June 1949, production of durable goods fell 18%, but only one-half of this drop resulted from weakness of consumption; the rest of the decline represented inventory liquidation on the part of manufacturers and distributors. In nondurable goods, the divorce of production from consumption was even more marked, since consumption remained almost perfectly stable while production was declining 12% from its 1948 peak. On the whole, it appears that only about one-quarter of the late recession resulted from a slackening of demand from the final users of goods, whereas three-quarters of it reflected the determination of the makers and sellers of goods to purchase inventories close-to-the-vest.

Charles T. Broderick

The inventory liquidation which the economy was subjected in 1949 is unlikely to be repeated on the same scale in the immediate future. Though soft goods inventories are being accumulated at a moderate rate at the present time, stocks of hard goods are still being depleted. Whereas total inventories were being accumulated at a rate of about $9 billion at the start of the recent recession, the current rate of accumulation is probably not in excess of $3 billion.

Our primary concern in the economic situation is therefore the rate of consumption itself. The chief support of unit consumption in the first half of 1950 should be the individual consumer. It is not true that increased minimum wages will expand workers' effective take-home pay, but both dollar and unit consumer demand will be increased through the distribution of $3 billion in veterans' insurance dividends, which will be paid out in six months or at the annual rate of $6 billion. (Since some fraction of this windfall has already been spent and since some of it may be saved, the increase in consumer expenditures represented by these dividends will probably be cut to $4 billion or $5 billion a year.) Furthermore, consumer credit extension is still below the prewar par, and it therefore seems reasonable to assume that about $1 billion will be added to total consumer demand from this quarter during the first six months of 1950. In short, total **consumer income** will probably increase by some $6 billion or so between the last half of 1949 and the first half of 1950, and **should therefore be the principal support of the economy during the next few months.**

With regard to the other sources of spending, there will probably be a modest decline in business expenditures on plant and equipment and a small reduction of our export surplus, offsetting in part the expected increase in consumer expenditures. On the whole, therefore, demand for goods from all sources will be very slightly higher in the coming months than it was in late 1949, **hence our belief that the direction of business activity in the first half of 1950 will be somewhere between flat and slightly rising.**

Concerning the last half of 1950, the current consensus of economists is that business will decline at a slow or fast rate, according to taste. This sort of forecast, i.e. that business will be good in the immediate future but will decline or collapse six months from now, bears a close resemblance to the kind of economic predictions we were hearing throughout 1946, 1947 and early 1948. The authors of these predictions appear to have been motivated then, and may still be now, by the obsession that the economy **must** undergo a depression as an aftermath of the War. The danger is that the nonprofessional or ready-made economist, recalling the inaccuracy of these predictions, may decide that the current forecast of an economic downtrend six months hence is also based "on general principles." Unfortunately, there are concrete reasons, this time, **for believing that business may roll over in a minor way around the middle of the year.**

In the first place, the payment of veterans' insurance dividends is a one-shot affair and, like all non-recurring benefits, will come to an end. When it does, consumer demand will fall to the same extent it had previously risen. In the second place, pension payments by industry, to take effect around April or May, will aggravate and not alleviate this situation. Prices of finished goods will probably rise by the amount laid aside by American industry for this purpose, whereas actual benefits will comprise but a small fraction of added company costs. In other words, the reserve funds set aside for pensions will be sterile and will constitute a net loss to unit consumer demand.

This prospective reduction in consumer spending could, but probably will not, be aggravated by an increase in the corporate tax load at the next session of Congress. Coming at a time when corporate capital expenditures are already subsiding, the raising of corporate tax rates and the corresponding reduction of undistributed corporate profits could convert the slow decline in business spending into a collapse. But, though the Administration seems bent on requesting additional corporate taxes, it is unlikely to get them.

What would more surely intensify the mild decline apparently in store for us in the second half of the year would be the development of a spirit of overconfidence in the business community in the first half. The build-up of inventories in the soft lines which began last September probably has

*Excerpts from address by Mr. Broderick at the Merchandising Division Session of 39th Annual Convention of the National Retail Dry Goods Association, Jan. 10, 1950.

no serious implications but, **if it should mean the dulling of that** keen recollection of the Great Depression which has been our strongest defense against a repetition of it, it could become a serious matter. Because we believe that businessmen as a whole are unlikely to be so forgetful and because the decline in total demand in prospect for the second half of the year is very small, **our forecast for the second half of 1950 is that business activity will be from flat to slightly falling.**

Looking beyond 1950, we strongly protest the view that a major war has to be followed by an economic depression, but we do not dispute that a complete transition from the recent wartime economy to a normal peacetime one must some day be effected. The difficulty with the recent recession is that it was a mighty poor excuse for such a readjustment. If we cannot console ourselves with the belief that the national economy had a real shakedown in early 1949 and if, in addition, residential construction, passenger car demand, our national export surplus and corporate capital expenditures are all abnormally heavy, **is not the major part of readjustment to economic normalcy still before us?**

The temptation is to answer this question in the affirmative. It must be remembered, however, that our export surplus, though still abnormally large, is smaller than it has been at any time in capital expenditures have been the last three years. Corporate capital expenditures have been declining ever since the end of 1948. Though the automobile and housing markets are larger than they can hope indefinitely to remain, the American consumer market as a whole has already undergone the major part of its correction from the economy of scarcity in the early postwar years. The general trend of both gross and liquid savings has been upward and, therefore, the rate of consumer expenditures has been downward, since early 1947. **This is the hidden readjustment we may easily overlook.** Lastly, so long as our great potential enemy remains wedded to the belief that the American economy can be "over-strained" by the defense preparations into which it is being forced, there will be at least one assured market for the products of our heavy industries. When the Communist world finally catches on to the idea that our sole problem is to maintain demand on a par with supply, it may be time for us to start worrying.

William Dailey Joins White, Weld & Co.

MINNEAPOLIS, MINN. — William A. Dailey has become associated with White, Weld & Co. He was formerly Vice-President of Harold E. Wood & Co. of St. Paul.

Robert Ross Opens

(Special to THE FINANCIAL CHRONICLE)

STOCKTON, CALIF. — Robert E. Ross is engaging in the securities business from offices at 235 East Weber Street. Mr. Ross was formerly associated with Blyth & Co., Inc.

With First California

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Jesse A. Lombardi has become affiliated with First California Co., 647 South Spring Street. In the past he was with Conrad, Bruce & Co. and Citizens National Trust & Savings Bank of Los Angeles.

In Case of War

By JOHN M. TEMPLETON

Templeton, Dobbrow and Vance, Inc.

Investment counsellor analyzes probable effects of war with Russia on stock market prices and on value of dollar. Considers probability of atomic bombing and advises, as preparation, choosing shares in essential industries located in small towns. Urges securities be registered in your own name, rather than name of nominee.

John M. Templeton

I hope that there will be no war! This natural feeling appears to dominate Wall Street thinking. Perhaps that it why almost nothing has yet been written on the subject how to protect wealth in case of war.

But a careful investor must avoid wishful thinking. It is his duty to plan ahead—to try to guard against each danger, however remote, whether the origin of the danger is economic, political or military.

In the military field, there now appear to be only three possibilities:

(1) No war.

(2) War which the United States wins.

(3) War which Russia wins.

If we could see into the future, we would know which of the three possibilities to use as the basis of investment policy. Without this foreknowledge, we have no choice but to try to protect against all three at once, in so far as that may be possible.

It is helpful to study the vicissitudes of investors in the United States from 1914 to 1921 and again from 1939 to 1946; but this time the conditions are likely to be very different, because the nature of the next war (if any) is likely to be very different. Accordingly, we must ponder also the viscissitudes of investors during those years in England, France, Italy, Japan, Germany and Russia.

When war began in 1939, prices on the New York Stock Exchange rose 15% in two weeks and then declined 41% in 27 months. After the Japanese attack brought the United States into the war, stock prices declined 9% in two weeks and then steadied. In case of war with Russia, nothing so mild as this experience should be expected.

With universal desire for peace among the American people, it is most unlikely that the United States would strike the first blow. The chances are that if a war occurs it would begin with a surprise attack by Russia. Stalin would be foolish to attack France or England first, because that would give the United States a chance to mobilize and launch an atomic attack in retaliation. It seems sensible to assume that the first blow would be an attack against American cities. Probably the blow would not be preceded by threats and diplomatic tension, but rather by false words of friendship in order that the victim might be totally surprised.

The atomic bomb puts an enormous premium on surprise. In previous wars the aggressor could not possibly strike a decisive blow the first day, except against a very small nation. Now it is at least conceivable that the victim could be so crippled in the first hour, that it would no longer be an even match against the aggressor. The original atomic bomb at Hiroshima killed 71,000 and injured 68,000. If the new bombs are twice as powerful and if 200 could be brought into cities secretely and exploded about the same time, the mortality might be 28,000,000.

There is no way to predict the date of an attack; but it is most unlikely that Russia yet has a stockpile of atomic bombs. Therefore an attack within the next year is unlikely. This gives us time in which to prepare protections calmly and carefully.

The world-wide Communist organization is many times as large as the Nazi fifth column was in 1939; and using atomic and bacteriological weapons this secret force may be more destructive than the Russian air force and submarines.

In case of war, the stock exchange might remain closed a long time. Some bank records might be destroyed. Wartime taxes and wartime rent and price controls are likely to be imposed immediately and in more drastic form than heretofore. Nonessential businesses might be closed promptly for the duration.

In other words, after war begins, it may be too late to think about rearranging your assets. On the other hand, two facts greatly complicate the matter of trying to rearrange your assets properly in advance. In the first place, it is possible that there will be no war; and in the second place even if there is a war, there is likely to be no advance warning.

Whether there is or is not any overt war, the investor should seek some protection against erosion in the value of the dollar. Without war, the gradual and intermittent trend toward inflation (which has existed in America for 17 years) is likely to continue because of the repeated wage increases and frequent deficits in the the Federal budget. Federal finances already strained by one world war might not be able to stand another. In case of war, government expense would be vastly greater than receipts. Goods of every kind would be scarce. Such is the basis of inflation. Inflation was the result of war in China, Greece, France, Italy and elsewhere. Owners of cash or bonds in those nations found that after the war such assets had only negligible value. This means that, whether there be war or peace, it is a reasonable precaution in planning an investment program to keep the major part of your assets in equities, such as common stocks and real estate, rather than in cash or bonds.

During a war, rent controls may make rental property temporarily unproductive; and wartime taxes may temporarily restrict the dividends on common stocks. But when the war is over, the owner will still own a valuable asset. Some forms of property such as bridges and city real estate may be subject to extensive damage, but some other forms of property such as oil in the ground are almost indestructible.

It is an old axiom that, "possession is nine points of the law." In normal times this may be an exaggeration; but not in times of national crisis. At such times, a house in which you live is a safer asset than a bank account. But, of course, there are reasonable limits to this idea; for example, a man of calm judgment will not, through emotion or fear, buy diamonds and bury them in the cellar, because this would deprive him of dividends on the funds. Also, even if a war did occur, disruption of the deBeers syndicate might remove the scarcity value of diamonds. The precautions which are justifiable now are simply those which increase the degree of "possession" of your assets without detracting from the value of the assets or pursuit of your career in peace time.

Precaution against war is an influence which bears on investment planning in ways too numerous to mention in this brief paper. For example: (1) If two stocks are equally good bargains, you may choose the shares of the company in an essential industry rather than shares of the company whose work is non-essential. (2) If your stocks are held in the vaults of your broker or your bank, in some cases you might ask the custodian to keep them registered in your name, rather than the name of a nominee, if that would cause no inconvenience. (3) If other factors are equal, you may choose shares of a utility which has numerous properties in small towns rather than a utility with all assets concentrated in a city like Detroit.

Even these few examples bring up problems which require more extensive study. However, one thing is certain, if you want to succeed in preserving assets for the next 20 years, you will need a broad viewpoint and an open mind in matters of economics, politics and atomic science.

Eugene Lear Pres. of Pittsburgh Exchange

Eugene H. Lear

PITTSBURGH, PA. — At the annual election of The Pittsburgh Stock Exchange held on Tuesday, Jan. 3, 1950, the following officers were elected to serve during the ensuing year:

President, Eugene H. Lear, Reed, Lear & Co.; Vice-President, Frank M. Tiernan, Jr., Preston Watt & Schoyer; Treasurer, Wm. J. Bauer, John B. Barbour & Co.

Mr. Lear, the newly elected President, was instrumental in forming the firm of Reed, Lear & Co. in 1933. He served in the U. S. Navy during World War II as Lieutenant Commander.

Can Maintenance of Inventories Prevent Recession?

By GILBERT N. KETCHAM and FRED C. ARMSTRONG
Department of Economics, Michigan State College

Writers, basing conclusions on survey of inventory policies of Lansing, Mich., retailers, advocate a system of guarantees by suppliers to retailers against price declines.

Apparently as certain as death and taxes is the time-honored economic problem of the causes of business recession. The quick an-


Gilbert N. Ketcham F. C. Armstrong

swer, the easy answer the stock answer has been for some time now a reduction of consumer demand with, evidently, some rather vague psychological genesis. Demand for consumers goods drops and so suppliers and retailers reduce their inventories to conform and the snowball is on its way. Businessmen have heard this refrain before and it leaves most of them cold. A recent survey conducted in Lansing, Michigan, of retail inventory policy indicates rather emphatically that this frigid reception is not entirely unfounded.

The survey was prompted by a business recession that occurred in the early months of 1949 in Southern Michigan at a time and in a place where consumer demand maintained a persistent high. Clearly the stock answer did not fit the occasion.

Lansing was chosen as the site of the survey because it is a community that has enjoyed a better-than-average high in consumer demand throughout the entire year. This survey indicated that 46% of the retailers questioned reduced their inventories appreciably in the past year, while 54% maintained their inventories. This fact, in itself, is of no importance as far as this study is concerned. The important point is why the 46% reduced their inventories. Was it because of a reduction in consumer demand? Or was it for some other reason or reasons? This is the crux of the problem.

The survey provided several answers. Seventy-seven percent of the retailers questioned reduced inventories during the past year in the belief that their suppliers would reduce prices, leaving them "holding the bag" with large and high-priced inventories. On the other hand, only 11% gave reduced consumer demand as the reason for depleting their stocks. The remaining 12% gave various reasons for their reductions, ranging from anticipated excise tax reductions to general economic uneasiness.

The cause for the recession could, on this basis, still be psychological. The findings of the survey, however, indicate that something considerably more definite than mere psychology is involved. It was found that of those retailers not reducing their inventories, 57% had definite protection agreements with suppliers against price reductions. On the other hand, 95% of those retailers reducing inventories did not have similar protection and 61% indicated that they would have maintained or increased their inventories if such insurance against supplier price reductions had been made available to them.

These findings indicate that retailers could be discouraged from reducing inventories if suppliers were willing to guarantee against price reductions. Also, the guarantee against price reduction seems to be the best means that manufacturers have of stabilizing sales.

Although the nature of price changes will prevent our ever having complete protection against them, there are many ways to guarantee the retailer relief when they do occur. One of the obvious methods is for the retailer and his supplier to enter into a contract which assures rebates to the retailer when prices are reduced. This method requires that suppliers are able to ascertain the exact stock of their goods the retailer had at the time of the price reduction. Another constructive method to improve retailer-supplier relations would be for suppliers to sell to retailers on 90-day notes with the provision that if the suppliers reduced their prices before the note came due, the necessary corrections would be made in the amount of the note. Retailers would be willing to pay a small interest charge on these notes for two reasons: first, the traditional one that the note constitutes borrowing, and second, such an arrangement would also constitute insurance for 90 days against price reduction and would consequently entitle the noteholder to a reasonable premium.

Many retailers would turn over their inventories in 90 days and this method in their case would be absolute protection. The supplier, on the other hand, could discount the notes at favorable rates. The results in this case would be twofold. First, the retailers would have protection against price reductions and would be less likely to reduce inventories. Second, the suppliers could, by discounting, get their pay for the goods immediately after delivery and would be free from the uncertain market, a combination that could prevent the need for price reduction.

The methods used to stabilize prices are not nearly as important as the results to be obtained from price stabilization. Suppose the retailers questioned had indicated they were reducing inventories to "take advantage" of future price declines when they replenished their stocks. In this event there would be little the manufacturer could do. The retailers would be literally "killing the goods that lay the golden eggs" and could contribute substantially to their own problems in the form of a recession. It is also impossible for the manufacturer to cope with reduced consumer demand.

Since, however, the retailers indicated no desire to force price reduction on the manufacturer, but simply wanted some guarantee against price reduction, then it is in the best interest of the supplier to take positive steps that will prevent reduced retail inventories.

W. S. Sheppley & Co.

CHICAGO, ILL.—W. S. Sheppley & Co. is engaging in a securities business from offices at 623 West 69th Street.

Charles Scheuer With Dempsey-Tegeler & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Charles G. Scheuer has become associated with Dempsey-Tegeler & Co., 135 South La Salle Street. He was formerly with Blair & Co. Inc. and prior thereto headed his own investment firm, Scheuer & Co.

Charles G. Scheuer

Chicago Exch. Members

CHICAGO, ILL.—The Executive Committee of the Midwest Stock Exchange has elected to membership the following:

John Latshaw, Uhlmann & Latshaw, Kansas City, Mo.; Paul I. Moreland, Moreland & Co., Detroit, Mich.; Milton W. Lepper, A. Lepper & Co., Cincinnati, Ohio; J. E. Bennett, J. E. Bennett & Co., Inc., Cincinnati, Ohio; Joseph B. Reynolds, Benj. D. Bartlett & Co., Cincinnati, Ohio; Ronald B. Woodard, Raffensperger, Hughes & Co., Inc., Indianapolis, Ind.

Hogan, Price & Co. Formed

BEVERLY HILLS, CALIF. — Arthur B. Hogan and Will Price have formed Hogan, Price & Co. with offices at 118 South Beverly Drive, to engage in the securities business. Mr. Hogan was formerly with J. H. Hilsman & Co., Inc., and Clement A. Evans & Co., Inc., of Atlanta, Ga.; Mr. Price was with Kenneth G. Price & Co. of McComb, Miss.

Two With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB. — William M. Gallahue and Earl E. Taylor have become associated with Merrill Lynch, Pierce, Fenner & Beane. Mr. Taylor was formerly with the Omaha office of Cruttenden & Co. and prior thereto was with H. O. Peet & Co.

COMING EVENTS

In Investment Field

Jan. 30, 1950 (Chicago, Ill.)
Bond Traders Club of Chicago annual winter dinner at the Furniture Club of America.

Feb. 1, 1950 (Kansas City, Mo.)
Bond Traders Club of Kansas City winter dinner at The Muehlebach Hotel.

Feb. 2, 1950 (St. Louis, Mo.)
Security Traders Club of St. Louis winter dinner.

Feb. 11, 1950 (New York City)
Friday Night Bond Club 14th annual dinner dance at the Hotel St. George, Brooklyn.

June 5-8, 1950 (Canada)
Investment Dealers Association of Canada 34th Annual Meeting at the Seigniory Club, Montebello Quebec.

Sept. 26-30, 1950 (Virginia Beach Va.)
Annual Convention of the National Security Traders Association at the Cavalier Hotel.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Annual Review and Forecast—Resume and discussion of market prospects—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Bank Stocks—Year-end comparison and analysis of 19 New York City Bank Stocks available Jan. 16—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Common Stocks for Investment—List of favored issues—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Commonwealth of Massachusetts—42nd edition of booklet giving up-to-date financial statistics of the Commonwealth, its counties, cities, towns and districts—Tyler & Company, Inc., 11 High Street, Boston 10, Mass.

The Market—Review and preview—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

1949 Tax Data on the Leading Investment Trusts—A guide to aid in computing taxability of dividends paid during 1949—Smith, Burris & Co., 120 South La Salle Street, Chicago 3, Ill.

Over-the-Counter Industrial Stock Index — Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Year-End Prices (1949) Foreign External & Internal Securities—Tabulation—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Also available is a tabulation of preliminary **New York Bank Earnings.**

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American Airlines—Circular—Reynolds & Co., 120 Broadway, New York 5, N. Y.

Central & Southwest Corp.—Circular—Josephthal & Co., 120 Broadway, New York 5, N. Y.

Lea Fabrics, Inc. — Statistical analysis—Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

Also available is a memorandum on **Douglas & Lomason Company.**

Mexican Eagle Oil—Memorandum — Zippin & Company, 208 South La Salle Street, Chicago 4, Ill.

Missouri Pacific Railroad—Memorandum—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Missouri Utilities Company—Memorandum—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

New England Public Service Co.—Special survey—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Ohio Leather Co. — Circular — Wm. J. Mericka & Co., 150 Broadway, New York 7, N. Y.

Also available is a circular on **Tappan Stove Co.**

Preferred Accident Insurance Company of New York—Analysis of a "sound speculation"—White & Company, Mississippi Valley Trust Building, St. Louis 1, Mo.

Riverside Cement Co.—Analysis—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Robertshaw-Fulton Controls Company—Gartley & Associates, Inc., 68 William Street, New York 5, N. Y.

Rochester Telephone Corp.—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

NSTA Notes

NSTA TRI CITY DINNERS

The annual winter dinners of the Bond Traders Club of Chicago, The Bond Traders Club of Kansas City, and the Security Traders Club of St. Louis will be held January 30, February 1st, and February 2nd, respectively.

The parties will be inaugurated at Chicago with the dinner to be held at the Furniture Club of America. Hotel reservations for the evening may be made with Fred J. Casey, Doyle, O'Connor & Co., Inc. Dinner reservations should be made with Chas. G. Scheuer, Dempsey-Tegeler & Co.

Reservations for the Kansas City dinner, to be held at the Muehlebach Hotel, may be made with John Latshaw, Uhlmann & Latshaw. Reservations for the St. Louis dinner may be made with Edward H. Morfeld, Morfeld, Moss & Hartnett. Guest fee is $12.50 for each dinner.

Special Pullmans will leave Chicago on January 31st for Kansas City and St. Louis, with the following schedule:

Lv Chicago	Milwaukee RR	Tues.	Jan.	31, 1950	6:25 p.m.
Ar Kansas City	Milwaukee RR	Wed.	Feb.	1, 1950	7:25 a.m.
Lv Kansas City	Wabash RR	Thurs.	Feb.	2, 1950	12:15 a.m.
Ar St. Louis	Wabash RR	Thurs.	Feb.	2, 1950	7:40 a.m.
Lv St. Louis	Wabash RR	Thurs.	Feb.	2, 1950	11:45 p.m.
Ar Chicago	Wabash RR	Fri.	Feb.	3, 1950	7:45 a.m.
or					
Lv St. Louis	Wabash RR	Fri.	Feb.	3, 1950	12:00 noon
Ar Chicago	Wabash RR	Fri.	Feb.	3, 1950	5:40 p.m.

The cost of round trip railroad fare and Pullman accommodations, also dinner leaving Chicago and midnight lunch leaving Kansas City and guest fees at Kansas City and St. Louis will be:

One in roomette $82.87
Two in bedroom each 79.64

For reservations and additional information contact Edward H. Welch, Sincere & Co., 231 So. LaSalle St., Chicago 4, Illinois.

Capitalism and Innovation

By GEORGE TERBORGH*
Machinery and Allied Products Institute

Mr. Terborgh declares modern industrial capitalism must be aggressively competitive, and include offering of incentives. Asserts it must not be weakened by undue taxation or regulation. High levels of education must be maintained, and available technology must be promptly applied to production.

If we accept the popular definition of capitalism for the purpose of this discussion, the private ownership of the means of production, it is obvious that we are embracing a vast range of economic and social structures which may have, except for private ownership, very little resemblance to each other. It strains the imagination to see much similarity otherwise between the primitive agrarian economy of China or India and the advanced industrial economy of the United States, yet both conform in reasonable degree to this definition of capitalism.

George Terborgh

Obviously if this system is so diverse in character and performance, there can be no easy generalization as to its capacity for innovation. The most casual glance at history confirms that capitalism has been highly creative and dynamic in some cases but not in others. Certainly private ownership of the means of production has not been by itself a guarantee of progress. It has been associated at times with some of the most stagnant and tradition-ridden societies on record. It must be acknowledged, on the other hand, that most of the material advancement thus far achieved by the human race has occurred under capitalism. Modern technological civilization is basically a product of private enterprise.

Some may contend this proves nothing save that capitalism, in the sense of our definition, has been historically the predominant form of economic organization. It may be argued, accordingly, that equal or even greater progress would have occurred under Socialism. While this contention seems to me improbable to the point of absurdity, it must be acknowledged that good historical comparisons of capitalist and Socialist societies are lacking. Except for the contemporary experiments in totalitarian Socialism under Russian aegis, we have no modern example of a fully, or even predominantly, socialized economy.

Even if we had an abundance of such examples, however, they would not necessarily provide a fair test of the relative capacities of capitalism and Socialism for innovation. For it is difficult to judge the inherent creativeness of a system in constant communication with another. The less creative system can appropriate the innovations of the other and appear in consequence far better than it really is. Soviet Russia, for example, has progressed largely by following the technology previously developed by capitalism. Advances made under these conditions offer very imperfect evidence of what Socialism could do if dependent wholly on its own resources. A really conclusive test would require observation of the two systems over an extended period of time and in complete isolation. We should have to have them on separate planets.

Fallacious Analogies

If a completely socialized economy can look better than it really is by borrowing the innovations of capitalism, it is equally true that the socialized sector of a predominantly private economy can both look better and be better than it would as a part of a completely Socialist order. It is one thing for the State to run the post-office or the railroad system in the context of a competitive market economy, and quite another to run it in the context of a bureaucratically administered economy. The latter is a vastly more difficult task. It is quite improper, therefore, to assume that the progress made by a given nationalized industry in a prevailingly capitalist society is a gauge of its capacity to progress under total Socialism.

Even if the verdict of history were clear beyond peradventure as to the relative dynamism of complete capitalism and complete Socialism, it would not necessarily resolve the real issue now before the western world. This issue is not the adoption of one or the other of these systems in its entirety, but concerns rather the most desirable mix of the two forms of organization within the same economy. The real problem, from our present standpoint, is whether public or private ownership is likely to be the more progressive in the particular activities or lines of production deemed to be on the border, or in the debatable area, between the two systems. It is a question of more or less, not of all or nothing.

I indicated at the outset that from the standpoint of its capacity for innovation, private enterprise has a very uneven record. This is likewise true, of course, of public enterprise. I have no desire to argue that bad capitalism is invariably more creative than good Socialism, nor do I wish to prejudge the merits of any specific proposal for nationalization. I should like, however, to indicate why I consider good capitalism the most dynamic of all systems of production, and why, therefore, I believe its attainment and preservation should be the supreme object of economic policy. In so doing, I shall be indicating at the same time why the general presumption should be in favor of private ownership and operation in borderline cases.

The Most Dynamic System

Good capitalism is the most dynamic system, in the first place, because it offers the widest diffusion of initiative. We have in this country nearly 4,000,000 nonfarm business enterprises. Each is potentially a source of new ideas and a laboratory for their experimental application. I am aware, of course, that the incidence of innovation falls far short of the potentiality. Real originality is comparatively rare under any system. I am prepared to assert nevertheless that a competitive organization of production, with a multiplicity of independent enterprises, is far more conducive to the generation of new ideas than the monopolistic bureaucracy of Socialism can ever be.

It is not only in the generation of innovations that good capitalism is superior, it excels also in their exploitation. There can be little progress without injury to someone. It usually requires painful readjustments. By the same token, there is usually for each innovation some sector of the community whose immediate interest is opposed. The competitive market provides an impersonal mechanism for compelling adjustment, infinitely more ruthless and effective than political action, certainly than political action in a democratic State. The right to exploit innovations in a free market is the best guarantee that the price of progress, however painful, will be paid and paid promptly.

The Need for Incentives

These observations can be repointed by saying that good capitalism offers an unequalled combination of opportunity and incentive. Let me add a word about the latter. There has been of late a tendency in many quarters to play down the need for incentives, well illustrated by the dictum of Sir William Beveridge that "only slaves need an incentive to produce." This is pure nonsense. Taken by and large, human beings will not work and strive to the limit of their potentialities without strong inducements. Here we can learn from the experience of Great Britain. Let me quote an editorial in the London "Economist":

"*The human donkey requires either a carrot in front or a stick behind to goad it into activity. . . . The whole drift of British society for two generations past has been to whittle away both at the carrot and the stick until now very little of either is left. It is the passion for equality — excellent in itself—that has removed the carrot. The rewards of success have not merely been shriveled, they have been poisoned, since commercial success itself has been turned, in the eyes of wide circles of society, into a positive disgrace. There is a conspiracy of labor, capital, and the State to deny enterprise its reward.*

"*The process of removing both the carrot and the stick has culminated in the extraordinary circumstances of today. Shrunken as were the incentives and sanctions of prewar days, they have now for the time being, vanished completely. Nobody gains anything from activity or suffers anything from inactivity. There is hardly the flavor of a carrot or a shadow of the stick. And yet we wonder why the donkey does not break into a trot.*"

No Good Capitalism in Britain

When I use the term "good" capitalism, it is obvious that I am not describing the capitalism of present-day Britain. For if the system is to offer the unequalled combination of opportunity and incentive of which it is capable, it must be vigorously and pervasively competitive, as it is not in Britain. Moreover, it must not be taxed and regulated to death. Its potentialities can be realized only in an environment of comparative freedom.

While wide opportunity and strong incentives are the basic conditions of a dynamic capitalism, I should like, if I may, to touch on a few additional desiderata. The first of these is a high level of general education.

The point may seem obvious, but it is nevertheless deserving of emphasis, that it is impossible to operate, let alone to improve, a fully developed modern capitalism without a high level of popular education, both technical and general. This fact has been repeatedly demonstrated by attempts to introduce even a single sector of modern technology into so-called "backward" countries. Let me quote from the latest annual report of the International Bank for Reconstruction and Development:

"*Perhaps the most striking single lesson which the Bank has learned in the course of its operations is how limited is the capacity of the underdeveloped countries to absorb capital quickly for really productive purposes. There are many reasons why development is necessarily a gradual process. Of fundamental importance is the low level of education and health prevailing in most underdeveloped countries. Without intelligent skill and vigorous manpower the economic progress of any country is likely to be slow however amply it may be endowed with natural resources and however substantial the assistance of foreign capital.*"

The Benefit of Education

One of the reasons for the backwardness of British productive technology as compared with our own strikes the investigator at once. We have approximately ten times as many college and university students in proportion to our population as does Great Britain, and an ever higher ratio in the technical branches of education. There can be no doubt that the large annual influx of educated youth into American industry has greatly stimulated and vitalized it, both at the technical and at the managerial levels. The maintenance and enlargement of trained manpower is one of the basic conditions of a dynamic economy and should be, accordingly, a primary concern of social policy.

Another desideratum for an innovative capitalism is an intensive development of scientific and technical research. While the day of the independent inventor is by no means over, we must recognize the increasingly dominant role played by group or staff research under the auspices of corporations and institutions. In this country industrial research alone has come to be a $500,000,000 business annually and is growing by leaps and bounds. The more elaborate and complex the technology, the more is progress likely to depend upon such organized

Continued on page 28

*A paper delivered by Mr. Terborgh before a joint session of American Economic Association and Economic History Association, New York City, Dec. 29, 1949.

Illinois Brevities

An issue of $49,000,000 Commonwealth Edison Co. sinking fund debentures due April 1, 1999, was awarded on Jan. 10 to Halsey, Stuart & Co. Inc., on a bid of 99.57699 for a 2¾% coupon. The bankers reoffered the debentures on Jan. 11 at 100¼ and interest to yield better than 2.74% to maturity. The sinking fund will provide for ratable retirement of the entire issue by April 1, 1999. The net proceeds are to be used to finance in part the company's construction program which involves a total of $290,000,000 during the four years ended Dec. 31, 1953. The present $49,000,000 debenture issue is a part of the balance of $139,000,000 which the company anticipates providing through the sale of securities. Neither the nature nor time of the additional financing has been determined.

* * *

Another syndicate headed by Halsey, Stuart & Co. Inc. on Jan. 6 publicly offered $10,620,000 Pennsylvania RR. 2¾% equipment trust certificates, series Y, at prices to yield 1.30% to 2.525%, according to maturity.

* * *

Straus & Blosser on Dec. 20 participated in the public offering of 400,000 shares of Lucky Stores, Inc. common stock (par $1.25) at $5.25 per share, which issue was oversubscribed.

* * *

Halsey, Stuart & Co. Inc. (as sole underwriter) on Dec. 29 publicly offered $2,500,000 Peoria & Pekin Union Ry. first mortgage 3⅛% bonds, series A, due Jan. 1, 1975, at 100% and accrued interest. The net proceeds will be used toward the redemption on Feb. 1 of a like amount of first mortgage 5½% bonds, due Aug. 1, 1974, at 104 1/6% and interest.

* * *

Harris, Hall & Co. (Inc.) on Dec. 14 participated in an offering of 70,000 shares of Pennsylvania Electric Co. 4.05% cumulative preferred stock, series D, at 102.53 per share and accrued dividends.

* * *

Municipal dealers in Chicago, New York City and other metropolitan centers are expected to be identified in the competition for the $5,000,000 City of Chicago water works system revenue certificates of indebtedness which will be sold via competitive bids on January 18. Such offerings generally meet with spirited competition among bidding syndicates and the City looks forward to a highly successful operation in the current instance. The issue is dated Feb. 1, 1950 and matures on Feb. 1 from 1965 to 1967, incl.

* * *

The First National Bank, Harris Trust & Savings Bank, Northern Trust Co., and the Continental Illinois National Bank & Trust Co., all of Chicago, were leading members of the syndicate which won award of the State of Iowa's recent offering of $8,750,000 1¼% service compensation bonds. The bonds, due from 1959 to 1963, incl., were re-offered for investment at prices to yield from 1.10% to 1.30%, according to maturity. They are callable on six months' notice at 101.50 and accrued interest.

* * *

The offering by American Natural Gas Co. of 276,805 shares of its common stock (without par value) to its common stockholders of record Nov. 23, 1949, at $28.25 per share, was underwritten by a group of underwriters, which included, among others, the following Illinois investment houses: Bacon, Whipple & Co.; William Blair & Co.; Paul H. Davis & Co.; The Illinois Co.; Farwell, Chapman & Co.; Mason, Moran & Co.; Ames, Emerich & Co.; Julien Collins & Co.; Mullaney, Wells & Co.; F. S. Yantis & Co., Inc., and Hurd, Clegg & Co. Subscription warrants expired on Dec. 12, 1949.

* * *

William Blair & Co. on Dec. 9 participated in the public offering of $5,500,000 Central Power & Light Co. 2⅞% sinking fund debentures due Dec. 1, 1974, at 99⅝% and accrued interest.

* * *

On Dec. 14, a group of investment bankers headed by Halsey, Stuart & Co. Inc., publicly offered $11,000,000 Pennsylvania Electric Co. 1st mortgage bonds, 2¾% series due 1979, at 100.81% and accrued interest. Other Illinois investment houses participating in this offering were The Illinois Co., and Mullaney, Wells & Co.

* * *

An issue of $12,500,000 Central Illinois Light Co. first mortgage bonds, 2⅝% series due 1979, was publicly offered on Dec. 16 at 100.935% and accrued interest, the net proceeds to be used to redeem the $7,378,000 first and consolidated mortgage bonds, 3½% series due 1966, at 104⅞%, and the balance to repay short term bank loans (incurred for the purpose of temporarily financing its construction program) and to reimburse its treasury for expenditures made and to be made in furtherance of the company's construction program.

* * *

The offering by Public Service Co. of Indiana, Inc. of 142,132 shares of its 4.64% cumulative preferred stock, par $100, to its common stockholders of record Nov. 25, 1949, at $116 per share, was underwritten by a group of investment houses, including, among others, the following Illinois bankers: A. C. Allyn & Co., Inc.; A. G. Becker & Co. Inc.; Central Republic Co. (Inc.); Harris, Hall & Co. (Inc.); Bacon, Whipple & Co.; Blunt Ellis & Simmons; Farwell, Chapman & Co., and Kebbon, McCormick & Co. Subscription warrants expired on Dec. 13, 1949.

* * *

Included in the nationwide group of 154 underwriters who on Dec. 5 offered an aggregate of 1,136,537 shares of common stock (par $8) of Ohio Edison Co. were the following Illinois bankers: A. C. Allyn & Co., Inc.; A. G. Becker & Co. Inc.; Central Republic Co. (Inc.); Harris, Hall & Co. (Inc.); William Blair & Co.; Bacon, Whipple & Co.; Blunt Ellis & Simmons; H. M. Byllesby & Co. (Inc.); Farwell, Chapman & Co.; The Illinois Co.; Kebbon, McCormick & Co.; Julien Collins & Co.; Cruttenden & Co.; and Sills, Fairman & Harris, Inc. An additional 5,558 common shares, which were not underwritten, were offered by the company, giving the utility company's common stockholders of record Dec. 1, 1949, the right to subscribe on or before Dec. 19, 1949 for 1,141,995 shares at $31⅞ per share.

Truman Reviews Economic Situation

In Economic Report to Congress, President envisions expansion of production and employment which will increase national income to $300 billion and give jobs to 64 millions within five years. Notes, however, trend of business investment has been downward and, if continued, would be cause of real concern. Promises tax revisions to stimulate business activity.

On Jan. 6, President Harry S. Truman transmitted to Congress his annual economic report in which he expressed the view that the postwar inflationary boom had undergone satisfactory readjustments and the nation was on the threshold of an industrial expansion which, within five years, would increase national income to a peak of $300 billion and give employment to 64 million persons.

President Truman

The full text of the President's report follows:

To the Congress of the United States:

As 1950 opens, renewed confidence prevails in the American economy. This confidence is in itself an element of strength; and it is justified by the facts.

Late in 1948 we stood at the peak of the inflationary boom. It was clear that an eventual adjustment was inevitable before we would have a firm basis for stability and steady economic growth. During 1949 we met the test of that adjustment. Despite rough going for a few months, we made necessary changes with much less distress and difficulty than ever before. Today we are on firmer ground than we were a year ago.

Prices are down somewhat, and show the relative stability on which firm business and consumer plans can be based. Inventories of manufacturers and retailers have been reduced, and now are better adjusted to the rate of sales. These changes were accomplished with only very small reductions in dollar incomes and consumer spending. Allowing for price changes, the volume of goods and services purchased by consumers in 1949 was actually larger than in 1948. Business is proceeding with good profit prospects. Home building in 1949 reached a higher level than ever before.

More important still, employment and production, which declined during the first few months of 1949, have in recent months been moving upward again. Considerably more people now have jobs than at the low point last year. Industrial production has increased by 9% since July. Holiday sales have hit an all-time peak.

The relatively safe passage from inflation to greater stability was no accident. Businessmen, workers, and farmers demonstrated much greater judgment and restraint than in earlier similar periods. Their actions showed that they had gained understanding of the causes of our economic situation and what should be done to improve it. Their efforts were aided by public policies which had been developed over the years and had been improved by experience. Government measures in such fields as credit and banking, social insurance, and agricultural price supports, proved their worth in cushioning the downswing and lending strong support to the recovery movement.

This effective teamwork between free enterprise and Government confounded the enemies of freedom who waited eagerly, during 1949, for the collapse of the American economy. Our economy continues strong. We are able to continue and advance the domestic and international programs which are the hope of free peoples throughout the world.

We have succeeded in avoiding a serious set-back in 1949. We have regained stability; but we need more than stability. The great motivating force in our economic system is the perpetual will to move ahead, to use our skills and our resources more efficiently, to produce more at lower cost, and to provide a better and richer life for all our citizens. The American economy must expand steadily.

Maximum production and maximum employment are not static goals; they mean more jobs and more business opportunities in each succeeding year. If we are to attain these objectives, we must make full use of all the resources of the American economy.

During the past year, we did not do so. Our success thus far in reversing the forces of recession cannot hide the high price we paid for economic instability. The downturn brought anxiety and suffering to millions who became unemployed, and to their families. It brought failure to many small businesses. It reduced the opportunities for the creation of new enterprises. It hurt the free nations whose continuing revival depends upon trade with us. It caused our total output for 1949 to be some 10 to 13 billion dollars lower than it would have been if maximum production and employment had been maintained.

In earlier economic reports, I emphasized the dangers of permitting inflationary pressures to continue, and urged measures to hold them in check. Most of these measures were not adopted, and the break in the economic boom, against which I had warned, came to pass. Six months ago, the Mid-year Economic Report pointed out the way to recovery. Additional steps should now be taken to complete the process of recovery. We must not again make the mistake of failing to adopt affirmative policies necessary for continued economic stability and growth.

At present, our economy is moving upward again. But we have not yet reached the point of fully employing our resources.

Although output is high, some resources of plant and equipment are not being fully used. Although employment is large, unemployment in recent months has been about 1½ to 2 million higher than in the corresponding months of 1948. Furthermore, our technology, productive facilities, and labor force are continuing to grow.

If we are to use all these resources, we must tap the dynamic forces of expansion within the American economy. One of the most important of these dynamic forces is the process of business investment, by which productive capacity is enlarged and improved. In the fourth quarter of the year, business investment has not kept pace with the improvement in economic conditions. If the downward trend in business investment were to continue, our prospects for full recovery and continued expansion would be seriously endangered.

There is no need for this decline to continue. There are immense opportunities for business investment in nearly every segment of the economy. There are in general sufficient funds available to businessmen who want to seize these opportunities. The initiative of businessmen, aided by proper Government policies, can and should soon reverse the trend of business investment.

Business investment can continue at a high level only if markets for consumer goods continue to expand. Price and wage policies should be directed at enlarging these markets. For only by broadening the distribution of goods and services can our business system find full use for its expanding productive capacity.

The events of 1949 demonstrated anew the basic strength of the American economy. They also demonstrated that economic affairs are not beyond human control. We should now seek to establish a course that will complete the recovery and carry us on to steady economic growth.

Summary of the Economic Situation

Total civilian employment in 1949 averaged 58.7 million, somewhat less than the average of 59.4 million in 1948, and was 58.6 million in December, 1949. Non-agricultural employment fell during the first five months, reaching a low of 49.7 million in May. Since that month it has increased at more than the usual seasonal rate, reaching 51.8 million in December.

Over the year, unemployment averaged 3.4 million, or about 5% of the labor force, compared with 2.1 million, or 3% of the somewhat smaller labor force in 1948. Unemployment at its worst in July, 1949 amounted to 4.1 million. In December, it was just below 3.5 million, 1.6 million more than in December, 1948. There has been a rapid rise in the number of unemployed workers exhausting their rights to unemployment benefits.

Total production of all goods and services in 1949 was $259 billion. Adjusted for changes in prices, this was about 1% lower than in 1948, and fell short of maximum production by 4 to 5%, or $10 to $13 billion. The sharpest drop was in industrial production, which averaged 9% lower than in 1948, while agricultural output dropped about 1%. Construction advanced about 5%, and output of electricity and gas rose about 2%. There was a gain in the service industries.

From November, 1948, until the low point of July, 1949, industrial production declined 17%. Since July the trend has been upward, interrupted only by work stoppages. By December industrial production had regained nearly half of the lost ground.

Prices during the first half of 1949 showed a general but moderate decline, followed by relative stability in the second half. Wholesale prices by the end of the year were down 7% from their level of a year earlier and 11% below their 1948 peak. The sharpest declines were in farm and wholesale food prices. Farm prices are now 23% below the postwar peak and 12% below what they were a year ago. The drop in consumers' prices was much more moderate. By November, 1949, consumers' prices had declined 2% below the level at the end of 1948 and 3% below their postwar peak.

Wage increases were received by a much smaller number of workers than in previous postwar years. There was no general wage pattern. Wages averaged slightly higher than in 1948, and consumers' prices were somewhat

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Truman Budget Forecasts $5 Billion Deficit

Estimated 1951 fiscal year receipts of $37.306 billion and expenditures of $42.4 billion, only slightly below peacetime peak of last year. National defense projected outlays of $13.5 billion slightly above previous year, but outlays provided for international affairs and finance reduced from $5.9 billion to $4.7 billion. Projected receipts exclude new tax proposals, but recommendations for tax adjustments to provide more revenue are forthcoming.

President Truman on Jan. 9 transmitted to Congress his budget message for the fiscal year beginning July, 1950. The message proposed an overall outlay of $42.4 billion which is slightly under the 1950 estimated outlay of $43.2 billion. Receipts for the 1951 fiscal year are estimated at $37.3 billion, also slightly under current figures, thus projecting an estimated deficit of $5.1 billion, compared with the expected deficit of last year of $5.5 billion. The President made no proposals in his message regarding tax changes but announced he would recommend tax adjustments, "which will produce some additional revenue in 1951."

President Truman

The text of the message outlining budget estimates follows:

To the Congress of the United States:

I am transmitting my recommendations for the Budget of the United States for the fiscal year ending June 30, 1951.

This Budget is a statement of the financial program for the United States Government, under both existing laws and new legislation which I am recommending to the Congress. It is an expression, in financial terms, of the actions this government can and should take at this time to build toward economic growth and the expansion of human freedom, in our own country and in the world.

For the fiscal year 1951, Budget expenditures under this financial program are estimated at $42.4 billion, about $860 million below estimated expenditures for the current year. Budget receipts under existing tax laws are estimated to be $37.3 billion, a decrease of about $460 million below the present year. The estimated Budget deficit for the fiscal year 1951 is thus $5.1 billion under present tax laws, compared with an anticipated deficit of $5.5 billion in the fiscal year 1950.

I shall shortly recommend to the Congress certain adjustments in our tax laws which will produce some net additional revenue in 1951, not reflected in this Budget. These adjustments will result in a larger revenue increase in subsequent years.

A reduction, greater than that in expenditures, has been made in the requests for new appropriations and other obligational authority in 1951. Expenditures occur when the government pays its obligations, and the Congress grants authority to incur obligations when it enacts appropriations, contract authorizations, and authorizations to borrow from the Treasury. The authority to incur new obligations which I am recommending for the fiscal year 1951 totals $40.5 billion, considerably below the 1950 level. This fact is significant as an indication that the downward trend in expenditures from 1950 to 1951 may be expected to continue.

The financial program provides a sound basis on which to proceed. It will properly support the extraordinary responsibilities of the Federal Government, both at home and abroad, and at the same time meet our obligation to pursue a policy of financial prudence and restraint. Such a policy must be directed at producing a surplus as soon as possible under favorable economic conditions. The reductions in expenditures, which I recommend, can be achieved and still permit our government to carry on its necessary operations effectively. The moderate increase in revenue which I shall recommend in conjunction with specific tax reforms, can be achieved without impairing continued economic progress.

In preparing this Budget, I have carefully evaluated the possible alternatives in the light of the realities of our present situation. The soundness of a fiscal program cannot properly be judged simply by the year-to-year change in the expected margin between receipts and expenditures. A prudent program must meet much broader tests, if it is to serve the long-range interests of our people.

The soundness of a fiscal program must first of all be judged by whether it allows the people, through their government, to meet the demands which the foreign and domestic situations put upon them. The necessary functions of the government in our complex society are varied and widespread. They require large expenditures but they are vital to our security, to the protection of our liberties, to continued social and economic progress, and to the welfare of our people. I have reviewed the expenditure programs in the Budget one by one, and found them necessary to achieve these purposes. I am confident that the Congress will come to essentially the same conclusion.

The soundness of the government's fiscal program must also be judged by its impact on the economy. The Federal Budget is a substantial part of the total flow of incomes and expenditures in our country each year. Federal receipts and expenditures must both be planned to encourage the prosperity of the economy and keep it healthy and growing. Irresponsible and short-sighted budgetary action could contribute to a worsening of the world situation and to a decline in production and employment in the United States. Under either of these circumstances, we would find ourselves faced by the necessity of Budget outlays much larger than those I am proposing, while the prospect for increased revenues would be much less encouraging. I am convinced that the recommendations I am making, both for expenditures and for revenues, will contribute to continued economic development.

The soundness of a fiscal program must be judged, finally, in the light of where that program will take us over a period of years. This is partly a matter of necessity: Most Government programs are based on a time schedule extending over a number of years, and a large part of the Budget in any one year represents binding commitments to spend established in previous years on the one hand, and tax liabilities already incurred on the other. It is primarily a matter of wisdom: sharp and arbitrary changes in Government programs, even where feasible, involve economic loss and dislocations, and may cause serious damage to parts of the economy. I am confident that the fiscal recommendations provide a solid basis for moving toward budgetary balance in the next few years. My confidence is based on three main considerations.

First, it has been possible to reduce anticipated expenditures for the fiscal year 1951 by close to $1 billion below the estimated level for 1950, and an even greater reduction has been made in the request for new obligational authority. Thus, the policies followed in preparing this Budget will permit further reductions in subsequent years. Specifically, the largest item in the Budget, national defense expenditures, is expected to approximate the 1951 level in the next few years; and the costs of our foreign aid and veterans' programs should continue the decline already expected between 1950 and 1951. It should also be possible in future years to reduce the cost of programs which have helped to meet the postwar transition problems of specific major areas of our economy, notably the support of agricultural prices and the creation of an adequate secondary market for housing mortgages. Finally, if the Congress enacts the proposed increase in postal rates, the burden of the postal deficit on recent Budgets will be largely eliminated.

The programs mentioned above constitute the bulk of the Federal Budget. With respect to other programs, relating primarily to domestic activities, Federal responsibilities will increase as the Nation grows. But the additional budgetary requirements for these programs, under a prudent fiscal policy, should be substantially less than the decline to be expected in the extraordinary postwar programs. In this connection it should be emphasized that the urgently needed insurance measures which are recommended in the fields of unemployment compensation, old-age security, and medical care will be primarily financed by special taxes designed to defray their costs.

Thus, assuming continued favorable economic and international developments, it is possible to plan on further reductions in total expenditures after 1951.

The second major consideration supporting my confidence in this fiscal program is the fact that our economy is a dynamic and growing one. Each year our population and the productivity of our labor force rise, and our total national output must rise also if we are to fulfill our obligation to maintain high employment. As our economy grows, tax revenues will grow also. The effects of this growth are not fully reflected in the receipts estimates for 1951, because the temporary decline in incomes during this past year will affect some tax yields in 1951.

Federal expenditures are themselves of fundamental importance to our prospects for steady economic growth. Programs for such purposes as national defense and international recovery are essential to maintain a favorable international situation. In addition many Federal expenditures constitute direct supports for important sectors of our economy, or direct investments in assets such as power facilities or in better education and other services, which add to the productive capacity of the nation. Thus this budget is not only consistent with an expanding economy, but will make a substantial contribution to that objective.

In analyzing the economic impact of Federal financial operations on our economy, increasing attention is also being paid to the aggregate of Federal cash transactions with the public, which are not fully reflected in the totals of budget expenditures and receipts. Primarily important is the fact that, as long as the social insurance trust funds are building reserves to cover liabilities in future years, they show a substantial excess of receipts over payments. Therefore the current economic impact of Federal financial activities, as reflected in the net difference between all cash receipts from and all cash payments to the public, is usually different from that indicated by the budget surplus or deficit. In 1951, for example, the excess of cash payments over receipts is estimated at $2.7 billion, $2.4 billion less than the estimated budget deficit. Continuing improvement in our fiscal position, which our present plans should achieve, will therefore probably result in an excess of total cash income over cash outgo before the budget will show a surplus. This aspect of our overall fiscal position is important in supporting the basic economic soundness of the fiscal program, although it does not lessen the need for the greatest possible prudence in the conduct of our financial operations as reflected in the budget, which is the proper instrument of Executive and Legislative control.

The third major consideration supporting the soundness of this fiscal program is the fact that the tax recommendations which I shall transmit to the Congress will both improve our tax structure and place us in a better position to meet our continuing fiscal requirements. It is highly important that we begin to make the basic changes in the tax system which are needed to make it more equitable and to provide better incentives for producing the amounts and types of investment, consumption, and savings which will

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BUDGET TOTALS

[Fiscal years, In millions]

	1949 actual	1950 estimated	1951 estimated
Receipts	$38,246	$37,763	$37,306
Expenditures	40,057	43,297	42,439
Deficit	—$1,811	—$5,534	—$5,133

NOTE—Estimated receipts exclude new tax proposals.

Daniel Baugh III Is With Morrow & Co.

(Special to The Financial Chronicle)

CLEVELAND, OHIO — Daniel Baugh III has become associated with Morrow & Co., Hanna Building.

Daniel Baugh III

Mr. Baugh was formerly associated with Gordon Macklin & Co. for many years as floor trader for the firm on the Cleveland Stock Exchange.

Rejoins MacBride, Miller

NEWARK, N. J.—H. V. White has again become associated with MacBride, Miller & Co., 744 Broad Street.

Mutual Funds

By HENRY HUNT

The Sales Fulcrum: A Good Return

Hugh W. Long's New York Stocks today has $30 odd millions of assets divided among 24 different series, most of which were first offered to the public nearly 14 years ago. Diversified Investment Fund, one of the newer series, was created barely five years ago, yet today has assets equal to more than those of the other 23 funds put together!

The rapid growth of "DIF" would indicate the public is more susceptible to funds of the balanced diversified type designed to produce a good income return (5 to 6%) than the individual industry fund designed more for potential profits.

"National's" **Income Series**, a prototype of "DIF," has been their best seller in recent years. Doug Laird, National's super salesman, has long been a believer in using the income appeal as a sales fulcrum.

While all funds with any common stocks in their portfolios play up the "grow with America" idea, the balanced fund which stresses income plus protection has really come into its own since the market break in 1946. The yield on most balanced funds from ordinary income is little more than 4% today but the outstanding sales records of Wellington and Investors Mutual, not to mention the Boston Fund, Eaton and Howard and George Putnam, proves that this return is sufficient to attract hundreds of millions of dollars.

When, as and if the public gets back into the stock market as it was in 1945, sales of individual industry group funds may zoom again. However, selling mutual funds on an income basis is a sound approach today as well as tomorrow.

Highlights About Yields

"Historically speaking, the average return or yield on a large group of dividend-paying common stocks has usually proved to be an excellent indication of value. When yields on common stocks have been relatively high, stocks have been cheap, and when yields were relatively low, stocks have been dear. (This rule is not reliable when applied to individual issues.) A widely accepted method of determining when stock yields are high or low is to compare them with the yields on the highest grade bonds. Stocks are considered a buy when the spread between these yields is large and a sale when the spread is narrow. The following table illustrates the soundness of the theory:

Stock and Bond Yields

	1940	1941	1942	1943	1944	1945	1946	1947	1948	Est. 1949*
Common Stock Yields	6.1%	9.3%	7.8%	6.1%	5.0%	3.6%	4.8%	6.3%	7.8%	7.8%
S. & P. Industrial A1 + Bonds	2.50%	2.56%	2.57%	2.57%	2.58%	2.47%	2.50%	2.75%	2.65%	2.45%
Difference in Favor of Stocks	3.6%	6.74%	5.23%	3.53%	2.42%	1.13%	2.3%	3.55%	5.15%	5.35%

*Year-end.

"This test shows that stocks were greatly undervalued and cheap in 1941 and 1942 and that now again, based on the estimated 1949 year-end figure, the difference is 5.35% in favor of stocks. Thus, the year-end stock yield is more than three times the yield on the Bond Index and represents the widest spread in favor of stocks since the bargain prices of common stocks at the end of 1941."—From a new folder issued by **National Securities and Research Corp.**

Looking Back 50 Years

"Industrial production up 150 points.
"National income up $203 billion.
"Corporate profits up $14 billion.
"Consumer prices up 105 points.
"The dollar worth about a third of its former value."

This is not a forecast of things to come. It has already happened—in the 50 years since 1900, according to a special mid-century edition of the "Keystone Investor."

The publication, issued quarterly for shareholders of **Keystone Custodian Funds**, takes a long backward look at American progress over the last half century and weighing the implications of our tremendous growth since 1900, comes up with several conclusions. The most important is that present business levels are not out of line with past long-term trends. This would indicate that the fears voiced so frequently of late that present levels are dangerously high and that this country is in for a serious setback are probably unfounded.

In fact, says the Keystone Investor, industrial production should reach a figure of 235 and national income $300 billion by 1960, if measured by their past rate of climb.

Willingness to Take a Risk

A good illustration of how our free enterprise economy works in relation to other systems which are so often talked about today is given by Emil Schram, President of the New York Stock Exchange, in an article recently published in the "Information Please Almanac":

"It's the willingness and the ability to take a risk that gives the American system a vitality and vigor that no government economy can possibly have.

"Imagine a Central Committee planning and controlling the national economy back in the 1890's. Along comes a skinny young man who says he can make a buggy run all by itself without a horse. Can't you see the faces of the men on the board? The hands hiding smiles, the side glances? Can't you hear the Chairman? 'Well—hm—but, Mr. Ford, we've got plenty of horses. Who the devil wants a buggy without a horse?'

"So Mr. Ford argues. He can make his buggy go faster than any horse, travel longer; it will never tire. People can do their business quicker, do more business, carry bigger loads further. If the Central Committee will only build him a little plant where he can start—just a little plant to start.

"But Mr. Ford didn't have to talk to a government board. He was living under a system of free enterprise, and he found people who would take the risk. Risk of failure, of course. A government board can't afford that sort of risk, but free men can. And all the modern miracle of industry has been wrought by men who risked their capital in the hope of profit. Risked and lost, and risked and lost again, until at last they began to win.

"To point up some of the material progress achieved under a free enterprise private-profit system, we submit the following statistics:

"**Automobiles**—8,000 in 1900; 17,500,000 in 1925; 30,545,000 today.

"**Telephones**—1,300,000 in 1900; 16,900,000 in 1925; 36,000,000 today.

"**Homes with radios**—3,700,000 in 1925, 37,623,000 today.

"**Homes with electric washers**—3,500,000 in 1926; 20,819,000 today.

"**Homes with electric ranges**—370,000 in 1926; 4,789,000 today.

"**Homes with vacuum cleaners**—5,200,000 in 1926; 16,356,000 today.

"**Homes with electric refrigerators**—142,000 in 1926; 23,525,000 today."—From **Vance, Sanders'** "Brevits."

With Luckhurst & Co.

CAMBRIDGE, MASS.—Edwin J. Flerra is connected with Luckhurst & Co. of New York City.

Considerations Regarding Capital Gains Taxes

By LAWRENCE H. SELTZER*
Professor of Economics, Wagner University

Dr. Seltzer reviews the pro and con of taxation of capital gains. Says chief problem is to devise tax treatment that will most nearly satisfy demand for equity and at same time avoid unduly impeding useful transfers of capital assets. Says taxation of capital gains, despite preferential rates, has yielded substantial revenues, and in good years could be used for reduction of national debt. Holds problem of inducing enough venturesome investment cannot be met equitably or adequately by preferential tax treatment of capital gains, because greater part of reward for risk taking is obtained from business profits.

The wide variety and still-changing tax treatment of capital gains and losses in this and other countries clearly demonstrates that no single policy has been universally accepted. The proper treatment remains a problem everywhere because it involves various unresolved conflicts — in and between concepts of income, equitable considerations, revenue goals, administrative requirements, and the desire to avoid harmful effects upon the markets for capital assets and upon investment incentives.

Lawrence H. Seltzer

In sharp contrast to the exclusion of capital gains from taxable income in Great Britain, the United States taxed them in full as ordinary income at the beginning of its present-day series of income tax laws (under the 16th Amendment to the Constitution). After nine years of this practice and four of allowing capital losses in full, Congress responded to strong complaints that this treatment was seriously impeding the sale of assets on which individuals could realize gains, and unduly stimulating the sale of those on which individuals could realize losses. Beginning with the Revenue Act of 1921 (applicable to 1922), a succession of compromise measures was enacted. In each, capital gains continued to be classified as income, but the application of the rate schedule, the allowance for capital losses, the definition of capital assets, and other provisions were successively modified in different ways in an endeavor more adequately to satisfy one or more competing objectives. Since each new set of provisions was an *ad hoc* compromise, differences of opinion have persisted to this day. Current proposals for change run the whole gamut from complete nonrecognition for income tax purposes of realized capital gains and losses to full inclusion of unrealized as well as realized changes in market values.

The major objections offered to taxing capital gains as ordinary income are: (1) they do not constitute income in a valid economic sense; (2) many of them are illusory, reflecting only changes in price levels or interest rates that leave the real income of the investor unchanged; (3) since the gains an investor realizes in one year characteristically have arisen over a longer period, it is unfair to tax them in full at progressive rates in one year of realization; and (4) substantial taxes on capital gains have various undesirable practical effects upon the mobility of capital assets, incentives to invest, stability of the securities markets, and stability of government revenues. Let us review these objections, in turn; and, in the process, take note of the opposing contentions.

I

Are Capital Gains Income?

Capital gains and losses, it is contended, are not valid elements of true income, as that term is widely used. The traditional concept of income includes only more or less regular and recurring receipts, or, in any event, only those that are more or less expected. An occasional, sporadic gain or loss, especially if unsought and unexpected, does not function like income in guiding conduct or in determining the allocation of economic resources. For this reason, many economists, for their general analytical purposes, though not specifically for those of taxation, confine the concept of income to more or less expected or recurring receipts. Similarly, the accountant usually excludes capital gains and losses from his measure of current income.

Further, it is urged that capital gains do not constitute disposable income for the country as a whole. In many instances, they do not represent additions to the total wealth of the country, but merely changes in the value of titles to some of this wealth. A reduction in corporate income tax rates, for example, may well raise the market prices of common stocks by several times the amount of the annual tax reduction without adding commensurately, if at all, to the nation's wealth. In other instances, capital gains may reflect real additions to the country's wealth, as when new mines or oil resources are discovered, but these additions cannot be currently consumed: they represent only the capitalized values of expected future incomes. They are capital, not income, it is contended; and taxes on them, therefore, tend to reduce capital accumulation.

Further, to tax capital gains as income, it is argued, puts a double tax on the recipient—first, on the capital value of future incomes; then, on the incomes themselves as they are received. A man who reinvests a capital gain of $50,000 will be subject to income tax on the future incomes he obtains from the gain; and these incomes constitute his real gain. To tax him also on the principal value of the gain itself, is to tax him twice. Similarly, there is a double allowance for capital losses when taxable income is reduced by both the capital value of the loss and the subsequent decline in annual income.

The answers offered to the preceding arguments may be summarized as follows:

(1) Although different concepts of income may well be valid for other purposes, the proper measure of income for tax purposes is to be found in the actual *ex post* results of economic activity, not in subjective expectations or presumptions. Taxable income should measure the relative ability of individuals to pay taxes, as indicated by the net annual additions to their wealth from economic activity plus their consumption. Capital gains supply an individual with the same additions as any other kind of personal income to his power to buy consumption goods or investments.

To exclude profits of this kind from income tax or to grant them sharply preferential treatment, seriously conflicts with the purposes of a graduated income tax. Capital gains constitute a major source of income for many individuals. The figures tabulated from income tax returns show that both the average amount of capital gains per taxpayer and the proportion of taxpayers who report capital gains rise sharply as we ascend the income scale. In some years, capital gains have exceeded dividends as a source of income for taxpayers reporting incomes above $100 000. And the unequal distribution of capital gains among the taxpayers within each income group accentuates the inequity of excluding them from income tax or of giving them unduly preferential rates.

Nor do most capital gains differ in underlying economic character from other forms of personal income. They are often deliberately sought as a species of profits. They are rarely wholly "unexpected"; but, like ordinary business profits, represent varying mixtures of expected and unexpected elements. In fact, if capital gains did not so commonly constitute a sought reward for exertion and risk, it could be justly contended that they should be taxed more heavily than ordinary income because they would then not serve any function in spurring initiative and exertion or in allocating economic resources.

In practice, capital gains embody large elements of personal compensation, interest, profits and rents, and often constitute a thinly veiled disguise for these ordinary kinds of income. A conspicuous example occurs when the retention of earnings by a corporation over a period of years causes its stocks to rise, enabling its stockholders to obtain the equivalent of these reinvested earnings in the form of a capital gain by selling the shares, or to avoid even a capital gain tax on the appreciation from these reinvested earnings by leaving their stock to their heirs.

(2) The allegation that double taxation is involved when both a capital gain and the subsequent annual yield derived from it are taxed, and the related contention that this practice reduces the country's stock of capital, are not relevant for a personal income tax, it is contended. Individuals are free to consume or to reinvest their capital gains. They are in the same position as those who have accumulated savings from other current income. Savers are also subject to income tax both on the saved portion of their income and on the yield subsequently derived from investing these savings. In both cases the current income inclusive of new savings and of capital gains measures the addition to the taxpayer's power to command and direct economic resources into channels of his own choosing. Income taxes are designed, among other purposes, to divert a fraction of this total power to the government. Were taxable income confined to consumed income, a sizable fraction of total personal income would be exempt. Conceivably, this exclusion might be desirable under some circumstances — a spending tax might be favored as a substitute for the income tax—but the case for it would not apply peculiarly to capital gains.

All taxes impinge in some degree upon the ability of taxpayers to save and to accumulate capital. One purpose of the income tax—as of estate and gift taxes—is to reduce inequalities in the distribution of income and wealth, even if this entails some reduction in private capital or in current additions to it. Whether the aggregate capital of the country is lessened by the same amounts, depends in part upon what the government does with the tax proceeds: public roads, school buildings, and the like are also capital goods.

Finally, it is argued that the difficulty of distinguishing clearly on economic grounds between capital gains and other forms of income creates serious administrative difficulties when the gains receive preferential tax treatment, and stimulates efforts on the part of taxpayers and their lawyers to convert ordinary income into this form. The tax preference and the associated tax-avoidance adversely affect the morale of the general body of taxpayers, whose cooperation is essential for the American system of a self-assessed income tax.

II

Illusory Gains and Losses from Changes in Price Levels and Interest Rates

I turn next to two special sources of capital gains and losses: changes in the general price level, and changes in interest rates. It is argued that only by excluding capital gains and losses from taxable income, can we avoid the unjust and otherwise harmful effects of taxing as income the spurious capital gains that only reflect a rise in the general price level—a depreciation in the value of the monetary unit. Many home-owners experienced this type of illusory gain during and after World War II, when all the money profit they realized from selling a house in one city or neighborhood was commonly needed to help pay for a similar house elsewhere. Allowances for capital losses are held to be similarly inappropriate when they merely reflect a decline in the general price level, a rise in the purchasing power of money.

It is also urged that capital gains and losses resulting from changes in interest rates are similarly unreal. When realized incidentally to a shift of investments, they leave the investor's actual income unchanged. For example, the income from an investor's securities will remain $4,500 a year if he sells $100 000 par value of 16-year $4\frac{1}{2}\%$ bonds he purchased at par at a $20,000 profit and reinvests the entire proceeds in approximately $120,000 of $3\frac{3}{4}\%$ similar bonds at par. When interest rates rise, the resulting fall in the market value of his securities, whether or not realized by sale, will similarly leave his interest income unchanged, because their smaller capital value, invested at the higher rates, will produce the same income as before.

In response to these arguments, it is generally conceded that capital gains and losses arising solely from changes in the general price level are fictitious in the sense that they do not measure real changes in the relative economic status of individuals. But it is contended that an upward or

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*An address by Dr. Seltzer at the meeting of the American Economic Association, New York City, Dec. 29, 1949.

Boston Inv. Club To Hear McGinnis

BOSTON, MASS.—On Jan. 16, 1950, Patrick B. McGinnis, of McGinnis & Co., New York, will address the Boston Investment Club at their monthly meeting at the Boston Yacht Club on the subject, "Railroad Financial Problems—Some Thoughts Concerning Same." Members and their guests are invited.

Patrick B. McGinnis

Merrill Lynch Opens New Training Program

Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange, announced that it has re-activated its executive training program with the opening of a new class of 32 men. The first phase of Merrill Lynch's training program was completed in February, 1949, with the graduation of the eighth class of post-war trainees.

Present students have all been chosen by individual office managers and have already received several months of on-the-job training. On the completion of three months of class work here they will return to the offices where they have been employed. The present class will bring the total of young executives trained by Merrill Lynch since the end of the war to 308.

Joins Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Wilbur F. Warren has joined the staff of Dempsey-Tegeler & Co., 407 North Eighth Street, members of the New York Stock Exchange. He was formerly with Newhard, Cook & Co.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The firm-to-buoyant tone which prevailed in the government market because of the new year demand for Treasury obligations and gradually moved prices ahead, gave way under selling by Federal and others. . . . Prices reacted about one-eighth of a point. . . . The whole list had been under accumulation, with the shorts as well as the more distant issues being taken by commercial banks. . . . Non-bank investors have concentrated in the longs. . . . Savings institutions are the leading buyers as they have been for some time in the past, but commercial banks have taken some of the spotlight because of their sizable purchases of the short, intermediate and long eligibles, taxables as well as the partially exempts. . . .

The longest restricted bonds have been the market leaders, because purchases by non-bank investors have been mainly for income purposes. . . . Switches are also being made out of the shorter taps in order to buy the longest 2½s. . . . In the eligible list the 2½s of 1956/58 and the 2¾s due 1956/59 have been the pacemakers, followed by the 2¾s due 1960/65 and the 2½s of September 1967/72. . . . The 1⅜% notes and the longest certificates appear to be the next most popular issues. . . .

LOW INTEREST RATES TO CONTINUE

Practically all of the money market experts are in agreement that the inflationary and deflationary forces are in balance and as long as this condition prevails, no important changes are looked for in interest rates. . . . This means low rates for refunding operations and the financing of the deficit. . . . Accordingly, investors have very little choice as to what to do with funds which must be put to work. . . . If the need is for maximum earnings, then the purchases must be long-term Treasuries, despite the high level of prices. . . . Intermediate-term issues are being bought, when not so much income is required, and the shorts are being taken on where the revenue factor is of declining importance. . . .

Therefore, the government market with the sizable early year demand has been edging up, because investors have to find an outlet for monies which seem to be accumulating at a fairly rapid rate. . . . The dominant factor in the picture continues to be the savings institutions, with the demand from this source covering the entire restricted list. . . . Although there is considerable buying of the earlier eligible tap bonds these institutions, since the turn of the year, have been much larger takers of the longest maturities in this group than the shorter ones. . . . It seems as though there is a switch to straight yield buying away from the option or call buying, which has been very prominent in the past. . . . Large amounts of the June and December 1967/72s have been put away recently, with some of the earlier eligible taps being sold in order to make way for the higher yielding obligations. . . .

OTHER ISSUES IN DEMAND

New York City and other large money center banks have been large buyers of the 1956/58s and the 1956/59s with not so sizable amounts going into the September 1967/72s. . . The latter obligation is still the leading issue as far as the smaller commercial institutions are concerned, and substantial blocks have been moved out of the market since the start of the new year, by these banks. . . . The buying of shorts also is very sizable and the Central Banks have had to supply the market with these securities in order to keep rates from getting out of line. . . .

The partially-exempts, especially the 2¾s, have been in good demand because the larger commercial banks continue to be attracted to these obligations. . . . Not so easy to obtain, they are immediately taken when they appear, many times at prices above those of the quoted market. . . .

SPECULATION ON FUTURE MONEY POLICY

Although all is serene in the money markets for the time being, there is considerable discussion as to what the monetary authorities might do if the forces of inflation should become more pronounced in the future. . . . Will there be a minor change in interest rates, in order to retard this spiral, in face of the Treasury's desire to finance at as low a cost as is possible? . . . Opinion seems to be pretty well divided, with some feeling the low-cost policy of the Treasury will continue as long as a deficit has to be financed, irrespective of the trend of economic forces. . . . Others believe a longer-term higher-coupon issue will be used by the Government if the inflationary spiral should become more pronounced, despite the low-cost financing policy of the Treasury. . . . These securities, it is contended, would be made attractive for non-bank investors and this would retard the creating of deposits and purchasing power, which adds to the inflation pressure. . . .

Federal continues to liquidate not too impressive amounts of long-term obligations to keep the market from getting out of hand. . . . A reluctant seller doing spot liquidating to keep the various issues from getting out of line is not preventing the market from advancing in an orderly way. . . . There is no doubt the Central Banks do not like to see quotations advance even as slightly as they have, but they have to go along with the low interest cost program of the Treasury, for the time being at least. . . . It may be that the policy of minor selling at intervals by Federal will be sufficient to contain prices within desired limits.

Dollar Gap and Unrequited Exports

By PAUL EINZIG

Commenting on financial aid received and given abroad by Great Britain, Dr. Einzig points out it is merely a surface balancing, due to Britain's unrequited exports, which cover payments on wartime sterling balances. Sees dollar gap still alarming and holds advantages would accrue to both Britain and soft currency nations, if exports were devoted more largely to dollar area.

LONDON, ENG. — During the concluding weeks of 1949 a lively controversy was waged in the columns of a number of London newspapers about the difference between the total amount of financial aid received and given by Great Britain since the end of the war. The publication of detailed list by the Treasury, in reply to a recent Parliamentary question, showing that the total aid received exceeded the total aid granted by some £200 million only, provided the starting point of the controversy which was largely confined to differences of opinion whether certain items should or should not have included among the list of grants and loans given or received. According to some, the difference between the total aid received (mainly from the United States and Canada) and the total aid given (mainly to soft currency countries) is really much larger than the figure given by the government. According to others, the totals of aid given and received practically balance each other if certain items omitted by the government are allowed for.

Dr. Paul Einzig

The object of the government and its supporters in claiming that Great Britain has given as much, or nearly as much, aid as she has received is to refute the criticism that Great Britain has been living on foreign assistance since the war. From an arithmetical point of view this object has undoubtedly been approached if not achieved. On balance, Great Britain has received only slightly more financial support than she has given to other countries in some form or other. It is right that this fact should be made plain. On the other hand, it is important that the significance of this fact should not be overrated and misunderstood. It would be fatal if, as a result of the publicity given to the fact that aid received and given has more or less balanced each other, a new wave of complacency should arise among the British public and in public opinion abroad. For our accounts of aid received and given are only balanced arithmetically, not economically.

What the surface balancing of figures mean in substance is that hard currency loans and gifts received by Great Britain are more or less equalled by her unrequited exports. This is not a satisfactory state of affairs. In so far as the unrequited exports arise through repayment of wartime sterling balances held by other countries, the process amounts to receiving loans or gifts in order to repay loans. In so far as the unrequited exports arise through granting loans or gifts to other countries, the process amounts to receiving in order to give.

The dollar gap in Britain's international accounts does not become any less alarming by the fact that an amount more or less corresponding to it has been given away in unrequited exports. And it would be a grave mistake to imagine that it would not matter if the size of the dollar gap doubled, so long as there would be a corresponding increase of unrequited exports. This sounds like stating the obvious; yet this appears to be a logical conclusion that might arise from the wrong emphasis laid on the fact that financial assistance received by Great Britain is more or less offset by financial assistance given by her.

The question is, would it have been possible to close the dollar gap but for the unrequited exports given away by Great Britain? Beyond doubt, some of the goods constituting the export surplus to soft currency countries could have been sold in the dollar area. What is perhaps more important, the labor and raw material engaged in the production of such exports could have been used for the production of goods marketable in the dollar area.

The root of the trouble is that both exporters and the government have taken the line of least resistance. It was easier for exporters to sell their goods in countries which were eager buyers and were willing to pay a good price, instead of having to undertake the effort and risk involved in the process of selling goods in the American market. And it was easier for the government to let the exporters proceed along the line of least resistance instead of checking unrequited exports for the sake of eliminating the dollar gap. Unrequited exports provided an easy way in which to maintain full employment.

Another consideration is that the soft currency countries absorbing the British unrequited exports were in bad need of that form of assistance. From this point of view as well as from that of full employment in Great Britain it might have been wise, however, to put up with temporary hardship for the sake of achieving stability. The elimination of the dollar gap would have been in the long run a safeguard to full employment. And it would have been worth while for soft currency countries to exercise a little patience. Great Britain will be in a much better position to help them once she has succeeded in putting her own house in order by balancing her dollar account. It would have been, and still is, to the interest of soft currency countries to assist her in achieving this goal by abstaining from drawing unduly on her economic resources for the time being. One of the unfortunate effects of the publicity given to the figures of financial aid received and given by Great Britain is that the unduly rosy picture those figures convey will make it more difficult for the British Government to induce the governments concerned to exercise self-restraint in drawing on their sterling balances, in the interest of the achievement of early equilibrium.

Answer to a Gold Standard Critic

By PHILIP M. McKENNA
National Chairman, the Gold Standard League
President, Kennametal Co., Latrobe, Pa.

Mr. McKenna, in reply to pamphlet by Dr. Marcus Nadler, upholds principle that gold coin standard imposes restraints upon profligate government expenditures. Denies gold standard created conditions that caused banking collapse in 1933 and says U. S. abandoned gold standard by choice of an individual or individuals, and not by necessity. Concludes, both in war and in peace, America needs sound money, and that nation is weakened by irredeemable paper money.

Any apologist for continuation of the worst form of currency known to man—irredeemable paper money — has indeed a difficult task! Dr. Marcus Nadler in his article "The Gold Controversy" does his best to provide excuses for those who wish to procrastinate on this issue. A skillfully shrewd admission is made by Dr. Nadler when he says, "Surely the gold standard is one of the finest inventions of the human mind." He then goes on "But, in order to permit the gold standard to operate certain workable conditions must be present. If these conditions are not present the gold standard cannot and will not work. Therefore, in my opinion, instead of utilizing our energies to return to the gold coin standard in the hope the gold standard will rectify the conditions which brought about the collapse, it would be better to utilize our energies to correct these conditions. Then a return to the gold standard would be simple."

Philip M. McKenna

Suppose Christian ministers took the position that while the Ten Commandments was the finest and most practical set of rules devised by man, that there was no use wasting energy standing up for them until robbery, murder and other crimes had abated, because the Ten Commandments would not work in a world so bad! The business of the monetary economist, it seems to me, should be to teach the truth. That seems to me the effective practical way to set mankind free from economic crimes and disorders. Or does Dr. Nadler really think that the American people can learn only the hard way, by the painful process of letting history take its course in the U. S. A. as it did in every other country where irredeemable paper money was substituted for a real standard of value available to the people? "Those who do not learn the lessons of history will be compelled to re-live them." "Experience keeps a dear school, but fools will learn in no other."

Dr. Nadler when he says "—in the hope the gold standard will rectify the conditions which brought about the collapse — " makes an unwarranted assumption as to the cause of the collapse in 1933 in banking. Evidently he has not studied how we came to go off the gold standard in times of peace in 1933. It has been recently set forth by the late Dr. Benjamin M. Anderson, in "Economics and The Public Welfare." (Van Nostrand 1949.) The crisis of March, 1933, was caused not by adhering to the gold standard, but by untrue and unwise remarks of politicians who sought to excuse the results of their own unskillful and bad acts by casting aspersions upon "dat ol' debbil" the gold standard. On page 279 Anderson notes under caption "President Hoover's Incorrect Statement Regarding the Federal Reserve Banks and the Gold Standard" as follows:

"The second political development of an extremely unfortunate character was the statement of President Hoover in his campaign speech in Des Moines on Oct. 4, 1932, that the Federal Reserve banks had been within two weeks of going off the gold standard earlier in the year. The statement was, in the first place, untrue. In the second place, if it had been true, the President of the United States was the last man to have made it. The father of the house does not make public announcement of a scandal in his family. But the statement was untrue. It was promptly challenged Oct. 7, by Senator Carter Glass; Oct. 10 by former Senator James A. Reed; and Oct. 11 by Senator Cordell Hull. Senator Reed bluntly charged President Hoover with being 'willing to spread false rumors about the Federal Reserve banks in the effort to win an election.' The President's statement was demonstrated to be untrue by Senator Carter Glass in his devastating reply on Nov. 1 in the campaign."

"The President's statement regarding the gold standard renewed foreign fears regarding our position. The foreigners were not in a place to hurt us much. Gold had come from abroad during the late summer and autumn and some gold could be withdrawn, but not enough to do us serious damage. But the statement also aroused in the minds of the American public fears which had not previously existed."

In fact on page 259 Dr. Anderson describes the fact that when we had had the real run on the gold reserves in the autumn of 1931, when so many countries abroad were in financial difficulties, and England went off the gold standard, the American people were not panicked into hoarding gold. Under caption "No Domestic Gold Hoarding" Dr. Anderson writes: "During this foreign run on gold, domestic gold hoarding was absolutely negligible. There was a great deal of gold hoarding among the people of Europe, especially in France. France was not subject to a foreign run; rather, France was pulling gold out of the United States. It is proper to add that the Bank of France itself behaved very well, in the opinion of the Federal Reserve authorities at the time."

"Our own people did not hoard gold. In one Federal Reserve district the total hoarding of gold was $5,000. In another, one of the largest, it was less than $100,000. The total for all Federal Reserve districts was less than $20 million and of this $6 million was accounted for by two known transactions which involved, not domestic hoarding, but hoarding by domestic agencies of foreign concerns."

"Our people were in many cases doubtful about the goodness of individual banks, but they had no doubt whatever of the soundness of our gold standard and the good faith of the Government and the Federal Reserve banks with respect to redeeming paper money in gold."

On page 282 Dr. Anderson shows how it was not adherence to the gold standard, but on the contrary, rumors of Roosevelt's intention of going off it, that precipitated the trouble falsely attributed to the gold standard. He writes: "Rumors Regarding Roosevelt's Gold Policy, Undenied, Start Domestic Gold Hoarding." "Rumors that the President-elect was going to take the country off the gold standard began late in December and grew in January and February. Efforts to persuade the President-elect to deny these rumors were unsuccessful. A new factor came into the banking situation — domestic hoarding was resumed on the part of men who were distrustful, not of the banks in which they kept their deposits, but of the currency. Deposits were drawn from strong banks by men who knew that the banks would be able to pay out dollars, but who doubted that the dollars would be redeemable in gold. . . . For the first time in the whole of this trouble we had domestic hoarding of gold on a great scale."

1933 Collapse Not Due to Gold Standard

Thus the so-called "conditions which brought about the collapse," to quote Dr. Nadler's words, was not the adherence to the gold standard, but the **intention of Roosevelt to go off the gold standard** and well founded information that such were his intentions, doubtless best known to his intimates. Thus we went off the gold standard by choice and will of an individual or individuals. It was done in the same way the date for Thanksgiving was changed several times from its accustomed date—by will and determination of persons who wanted to do it. No one said in that instance that Thanksgiving had failed as an institution and therefore we had been forced to change it! We can go back on the gold standard the same way we went off it—by the determination to do so.

Dr. Nadler makes another of those skillfully shrewd admissions as to the supply of gold in the U. S. A. being sufficient to permit the people of the U. S. A. to enjoy the liberty inherent in a gold coin standard when he says "The United States today has a super abundance of gold." He does not fall into the category of the uninformed critics of a return to honest money who plead in ignorance that we do not have enough gold in the U. S. A. to permit the coinage of gold without embarrassment to the Treasury. He knows better. He says "Whereas the legal ratio is 25% the actual ratio of gold to demand liabilities of the Federal Reserve banks is 57%." Thus we don't have to argue with him about the feasibility of restoring convertibility to the American citizen now.

Dr. Nadler asks whether, as the members of the Gold Standard League believe, a return to the gold standard would really impose restraints upon profligate expenditures by the government. He says: "On the contrary, if the Congress should find that the gold standard interferes with its policies it would either abandon it entirely or make it meaningless." Dr. Nadler may be thinking of European governments rather than our own Constitutional Government under which it is the duty of Congress to "coin money and fix the value thereof," by which the writers meant solely the definition of the dollar in terms of the weight of precious metal in it. Now 1/35 oz. of gold equals one dollar under the limited gold bullion standard in effect. At that rate our Treasury makes good to foreigners, through their foreign central banks, but owing to laws hastily enacted in 1933 and 1934, which should be repealed, citizens of the United States cannot redeem their paper currency in our own standard of value, gold at $35 per ounce. Congress is responsive to its constituents and their needs. Prosperity is dependent upon the provision of a dependable currency. Without a reliable currency the promises men live by cannot be validated and production and exchange will languish. When Congress re-establishes redeemable currency it would not be surprising if after a few years prosperity returns. Good times and the gold standard go together. "Gold Resumption Prosperity" is plainly marked on the charts of business activity in the area above the line in the period 1878 to 1883 when the U. S. A. resumed specie payments Jan. 2, 1879, under John Sherman, after the short period of green back money after the Civil War. A Congress which found the clue to confidence would not be likely to quarrel with success.

Dr. Nadler seems to be contradictory in saying, first that the gold coin standard would not be an effective restraint upon profligate spending by Congress and then by saying that if Congress should find that the gold standard interferes with its policies it would either abandon it entirely or make it meaningless. It would certainly be a "restraint" if they had to break it to do what it would restrain them from doing! One does not need to break a rope which does not act to restrain one.

Convertibility a Check on Continuing Deficits

Above all, the return to convertibility would protect those citizens who, seeing the end result of continuing deficits, preferred to forego interest by merely holding a form of value in which they felt they could place confidence as to its retaining value.

Dr. Nadler may think as some critics of a return to the gold standard say, that it works well enough in times of peace, but could not operate in modern times where there are so many threats of total war. One critic even noted that in the period 1883 to 1913 "even in times of peace" that the gold standard had not prevented fluctuations in prices, the price index which he used going from 108 in 1883 to 68 in 1896 and back up to 102 in 1913. Referring to the description of that period from 1883 to 1913 as "a time of peace" associated with the gold standard, it seems to me that there were wars and occasions which today might lead to such holocausts as we have seen when irredeemable paper money lends horrible power to irresponsible governments. We had the Boer War from 1899 to 1902; the Spanish American War of 1898; the Russo-Japanese War 1904-1905; the Boxer Rebellion of 1900; the Italian and Balkan Wars of 1911 to 1912, to say nothing of numerous South American uprisings. Those who associate the gold standard with times of peace may be correct—the gold standard and peace go together, sure enough. But which is the cause and which is the effect? Who started this fashion of irresponsibility in "the promises men live by"? Bethmann-Hollweg in 1914 became famous (or I should say infamous) by his remark to Sir Edward Goschen, British Ambassador to Berlin, that the Belgian guarantee was "a scrap of paper." Critics of a return to the gold standard generally admit that it worked well in times of peace. But they fail to admit that the gold standard itself may have had something to do with the fact that small wars did

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Canadian Securities

By WILLIAM J. McKAY

Despite the adverse foreign trade factors that became increasingly evident during 1949, Canada's foreign exchanges reserves at the end of the year stood at the gratifying level of $1 117 million. This total shows an advance of approximately $50 million over the November figures and an increase of $119 million in comparison with the 1948 end-year level. Thus it would appear that the Dominion has so far been able to bridge the awkward foreign trade-gap that has been created as a result of losses in the British markets. This has undoubtedly been achieved by an increase of Canadian sales to this country.

Much depends therefore on the maintenance of the present high rate of business activity south of the border and Canadian ability to avoid an increase of the deficit in trade with this country. The expiration of the United Kingdom-Canadian Wheat Agreement July next will also create another difficult problem the solution of which will severely tax the ingenuity of the Dominion trade and financial authorities. For this reason and many others the current year will undoubtedly prove to be both an eventful as well as a critical period in Canadian economic history.

So far the immediate obstacles have been surmounted without the development of any serious crisis. To a great extent this is due to capable financial and economic management but without the tremendous potential factor constituted by the enormous latent wealth of the Dominion's undeveloped natural resources there is little doubt that external confidence in Canadian prospects would have been gravely shaken. Furthermore, faith in the future strength of the Canadian economy has been encouraged as a result of the spectacular oil discoveries in Alberta, the imminent exploitation of the important ilmenite deposits in Quebec, and the high promise of the fabulously rich Quebec-Labrador iron fields. Canada's position as a major supplier of uranium is also assuming greater importance.

It is increasingly evident therefore that although a difficult economic phase lies immediately ahead the time is not too far distant when the normal development of the Dominion's wealth of natural resources should correct the customary imbalance in trade with this country. In the meantime much will depend on the direction of Canadian economic policies during the next few years. Recourse to further restrictions on trade and stricter financial controls would be retrogressive steps that would impair confidence in the country and thus arrest the vitally necessary flow of U. S. investment dollars.

What is actually required is a bold and imaginative policy designed to bridge the gap between the precarious present and the promising future. As previously mentioned it is entirely normal for a youthful country such as Canada to incur large foreign indebtedness at this stage of development. Therefore while the U. S. dollar deficit continues to exist it is logical that the Dominion should supplement the normal foreign capital influx by U. S. loans. In this connection a constructively inspired treatise recently issued by Mr. C. Bronson McNair, of Hamilton, Ontario, entitled "A New Gold Policy for Canada," deals specifically with this question. Among other interesting suggestions, Mr. McNair proposes that Canada should cease to export her newly-mined gold and instead utilize it during the next few years entirely with the objective of creating an eventual special reserve of about $2 billion. It is further suggested that about $1 billion of this fund be set aside as collateral against loans at a low rate of interest to be raised in this country to cover the deficit in trade.

There is already evidence that Canada is no longer exporting the entire new gold production although the official statistics covering operations in gold have recently been somewhat obscure. In the event that a new gold policy has been decided upon there are many means available for the stimulation of the Dominion's gold production which could constitute an increasingly potent factor in the Canadian economy.

During the week there was a continued absence of business in the external section of the bond market. The internals although likewise inactive were slightly firmer in sympathy with the strength of free funds which rallied to 11% following the announcement of the quite surprising end-year exchange reserve total. The corporate arbitrage rate was virtually unchanged at 14¼%-13½% discount. Stocks continued their vigorous upward course and the industrial group average established a new 16-year peak with the steels leading the advance. Western oils and base-metals on the other hand were mixed but senior golds met with good investor support.

Wollerton Powers Joins Coburn & Middlebrook

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Wollerton Powers has become associated with Coburn & Middlebrook, Inc., 37 Lewis Street. Mr. Powers was formerly associated with Tifft Brothers and prior thereto was an officer of Henry C. Robinson & Co.

Robert F. Hooker has also joined the firm's staff.

With A. H. Bennett & Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO. — Alton Gumbiner has become associated with A. H. Bennett and Co., 1004 Baltimore Avenue.

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Answer to a Gold Standard Critic

not break out into big ones. For those who love peace it's worth trying the gold standard again!

War Can Be Conducted Without Paper Money

Dr. Nadler has also remarked that of course war cannot be conducted effectively without paper money. Let's see what Napoleon said on that subject. He certainly knew more about war than Dr. Nadler! From White's "Fiat Money Inflation in France" I quote:

"But this history would be incomplete without a brief sequel, showing how that genius profited by experience. When Bonaparte took the consulship the condition of fiscal affairs was appalling. The government was bankrupt; an immense debt was unpaid. The further collection of taxes seemed impossible; the assessments were in hopeless confusion. War was going on in the East, on the Rhine, and in Italy and civil war in La Vendee. All the armies had long been unpaid, and the largest loan that could for the moment be effected was for a sum hardly meeting the expenses of the government for a single day. At the first cabinet meeting Bonaparte was asked what he intended to do. He replied 'I will pay cash or I will pay nothing.' From this time he conducted all his operations on this basis. He arranged the assessments, funded the debt and made payments in cash; and from this time—during all the campaigns of Marengo, Austerlitz, Jena, Eylau, Friedland, down to the peace of Tilsit in 1807—there was but one suspension of specie payments, and this only for a few days. When the first great European coalition was formed against the Empire, Napoleon was hard pressed financially, and it was proposed to resort to paper money; but he wrote to his minister, 'While I live I will never resort to irredeemable paper.' He never did, and France under this determination commanded all the gold she needed. When Waterloo came, with the invasion of the Allies, with war on his own soil, with a change of dynasty and with heavy expenses for war and indemnities, France, on a specie basis, experienced no severe financial distress."

Napoleon knew that a country is weakened by irredeemable paper money both in war and in peace. Our own country today, seems to be following the advice of Lenin who is reported to have said that the best way to take over a country for communism is first to debauch its currency. We fought World War I on the gold standard with money always redeemable. The wastes in America in fighting World War II, historians will show, were greater because of the frustrations introduced by inflation of the money supply under a system of fiat paper money. Economic calculations upon which efficiency of a country depends went awry because of lack of a work-a-day standard of value. Both in war and in peace America needs sound money.

Those who fear for the safety of our country in the event of another war realize that the weaknesses hoped for by Lenin, through debauching the currency, are doing the work of preparing for our defeat. They want the restoration of the gold coin standard to make our country strong again.

And those who ardently wish for peace are well advised to note that peace and the gold standard go together and may be associated by more than coincidence.

Should Prosperity Be Based on Government Spending?

Dr. Nadler says that business activity is high today because the government makes it high and that under the gold standard there is no assurance that activity would take place freely. I venture to say that "buying prosperity" by taking money in taxes to be "given" back to people by government is "operation bootstraps" and won't succeed.

Dr. Nadler's conclusion No. 2, that "the return to the gold coin standard could lead to a too rapid conversion of paper money and of deposits into gold and transfer the control over the money market from the duly appointed monetary authorities to the hands of uninformed people, which obviously is not desirable," seems rather insulting to the American citizen. It seems to follow the teaching of Wilhelm Friederick Knapp, the economist under Kaiser Wilhelm, that inasmuch as the State must be all powerful it is necessary that the management of the supply of money and the interest rate be retained in the sovereign state. Perhaps Dr. Nadler never heard of the American theory of the "sovereign" people who give only what powers we find necessary to the Federal Government, all others not specifically delegated being retained by the people and to the several states. Practically, to me, a private U. S. citizen, it means that "duly appointed monetary authorities" know what's good for me to do with my money better than I do myself as a free citizen. In view of the wastes of my earnings and substance which I see going on by governmental authorities whom I do not consider "duly constituted," but rather as usurpers of power held without corresponding responsibility, I disagree. In view of the almost universal record of damage done to everyone by manipulations by central banks controlled by politicians, and the record of currency debasement (not to bring up our own sorry record of currency inflation since 1933) can people seriously speak of leaving everything to "capable and responsible men" and to "duly appointed monetary authorities" who have always let us down as Sir Stafford Cripps did this year in devaluing the pound? I think the citizen has a better record of wise financial behavior. I believe the citizens of the United States are awakening to the very real threat to our liberties by the continuation of irredeemable money. I believe the first thing to do to save us from going down into the Death Valley of Socialism, is to restore convertibility of our currency to American citizens. I fear that stagnation will set in as we find that "operation boot straps" with "pump priming," is about as effective as feeding a dog by slicing off portions of its tail and giving to the dog. When that happens, as it may in another 15 months, it may be more difficult to resume specie payments than it is today when even Dr. Nadler recognizes we have enough gold to do it. A bill now in the 81st Congress, H.R. 3262, would do it. All earnest citizens who study this important matter will demand that we resume specie payments and the coinage of money for use by American citizens at once.

Wm. M. Hatcher With Wm. E. Pollock & Co.

William M. Hatcher has become associated with the sale department of Wm. E. Pollock & Co., Inc., 20 Pine Street, New York City, dealers in United States Government securities, state, municipal, housing authority, revenue, railroad, industrial and public utility bonds. Mr. Hatcher was formerly with E. H. Rollins & Sons Incorporated.

J. B. Maguire & Co. Being Formed in Boston

James B. Maguire

Edward J. Opper

John L. Daley

James E. Moynihan

BOSTON, MASS.—J. B. Maguire & Co. Inc. is being formed with offices at 75 Federal Street to act as dealers and brokers in over-the-counter securities specializing in public utility, industrial and railroad stocks and bonds.

Officers are James B. Maguire, President; James E. Moynihan, Vice-President, and Raymond A. Bond, Treasurer. Edward J. Opper will handle public utility preferred and common stocks; John L. Daley, corporate bonds; Mr. Moynihan. Mr. Daley and Mr. Maguire will handle industrial stocks.

The entire personnel were formerly the trading department of the Boston office of E. H. Rollins & Sons Incorporated.

Herbert J. Lacy Now With Blair Claybaugh

Herbert J. Lacy

Herbert J. Lacy has become associated with Blair F. Claybaugh & Co., 52 Wall Street, New York City, in their trading department. Mr. Lacy was formerly with Van Tuyl & Abbe.

Daniel Condon Partner In Keiper & Zimm

Daniel G. Condon has been admitted to partnership with Rudolph W. Zimm in Keiper & Zimm, 30 Broad Street, New York City. Mr. Condon was formerly with Charles E. Quincy & Co. and Garvin, Bantel & Co.

Joins P. W. Brooks Co.

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS. — Raymond E. Carlson has joined the staff of P. W. Brooks & Co., Inc., 1537 Main Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market disregards internal signals, continues to plow ahead. Three stocks suggested.

I've been biting my nails waiting for this market to turn down. So all I've got for it are fingers chewed down to the quick; at home where everybody avoids me and when I look in the mirror even I get a little sick of me. And all because the market went up when I thought it was going down.

* * *

Long ago I learned that the one thing that can drive you bats is to fight a market that's going up. But apparently I've forgotten my lesson. Now, here it is almost a month of rising prices and I'm still sitting it out.

* * *

The main problem is akin to that of the man who grabbed the bull by the tail. If he held on he might get killed, if he let go . . . well you know the old analogy. Yet, I can't see anything but lower prices ahead. The only thing wrong with that conclusion is the market. It refuses to go down. On the days it does react a little, the volume dries up. When it rallies, volume picks up. We have even had a couple of days with the tape behind the market.

* * *

At this point I could expound some little known ramifications of the Dow Theory to sustain my beliefs. But what use would they be? I don't like excuses any more than the next fellow.

* * *

Because of the increased public participation in the current market, a reaction, when, as and if, will be greater than generally expected. At the same time, however, the reaction doesn't seem any closer today than it was last week, or the week before. The signs I believe are still present though they haven't been added to.

* * *

Anyway I'll get off the sidelines and into the fracas. I'll probably have my head handed to me. Here are the stocks I like:

The first is Cooper-Bessemer. I suggest buying it at 24 or better with a stop at 21. A word of warning, however. Stock is very thin, so be prepared. The second is Reynolds Metals. Buy that at 23-24 with a stop at 21. The last is Mead Corp. 15-16, with a stop at 14.

* * *

As of this writing you were still long of Denver, Rio Grande at 23. Profit taking level was 31 or better. It's currently just under that price. The stop is 26¾. There is no change in the position.

More next Thursday.

—Walter Whyte.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

John Kasbeer Joins Wellington Fund

PHILADELPHIA, PA.—John H. Kasbeer of Chicago has joined the midwestern wholesale distributors of Wellington Fund, it was announced here by A. L. Wilkins, Vice-President of W. L. Morgan & Co., general distributors of the Fund.

Mr. Kasbeer has been associated with the securities business in the midwest for more than 20 years. He was formerly with the Television Fund, and prior to that with Kidder, Peabody & Co. He will make his headquarters at 39 South La Salle Street, Chicago.

R. B. Thomas V.-P. Of Dallas Rupe & Son

DALLAS, TEX. — Roderic B. Thomas has been elected a Vice-President of Dallas Rupe & Son, Kirby Building.

McAlpin Elected

David H. McAlpin, of Princeton, N. J., a limited partner of Clark, Dodge & Co., was elected a director of National Investors Corp. and Whitehall Fund, Inc., at meetings of directors of those companies. Mr. McAlpin is also a director of Tri-Continental Corp., an associated investment company.

William R. Putnam Joins Kidder, Peabody

Kidder, Peabody & Co., 17 Wall Street, New York City, members of the New York Stock Exchange, have announced the association with the firm of William R. Putnam as public utility consultant. Mr. Putnam recently retired from Ebasco Services Incorporated as a director and general consultant.

William R. Putnam

Connected with the public utility industry since 1899, Mr. Putnam has served as executive head of the Idaho Power Co. In 1929 he became associated with Electric Bond and Share Company and Ebasco Services Incorporated.

Organizer and first President of the Minnesota Electric Association and former President of the Northwest Electric Power & Light Association, Mr. Putnam has been active for many years in national committee work of the electric utility industry. As Chairman of the Commercial Section of the National Electric Light Association, he did much to promote the application of electric energy to improve living standards.

In making the announcement, Kidder, Peabody & Co. stated that Mr. Putnam will work closely with firm members and research personnel engaged in the financing of operating public utilities, a field with which the company has long been identified.

T. Geoffrey Horsfield Dies

T. Geoffrey Horsfield died at New York Hospital Jan. 7 of double pneumonia. Mr. Horsfield, who was well-known in Wall Street, was active in the affairs of the Security Traders Association of New York and the National Security Traders Association. He was a graduate of Yale, class of 1926.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The annual reports and operating results of fire insurance companies for the year just ended will not be available for some time yet. However, present indications are that 1949 was the most profitable period in the history of the industry.

Improvement in both investment earnings and underwriting profits contributed to the gains to be reported. The marked increase in profits, however, occurred primarily in the underwriting phase of the business.

For the first time in a number of years there was a decline in losses. Of considerable importance in this connection was the lower level of fire losses. This in turn was possibly a reflection of prices and costs.

Also, premium volume continued at a high level although not showing the large increases that were evident in previous years. A generally higher rate structure was possibly of some importance in the premium gain as was the increases through property additions. This enabled fire insurance companies to show large gains in premiums earned. As expenses were in most instances only moderately higher, underwriting profits were able to reflect a larger portion of the gain in earned premiums.

In 1948 the underwriting profit margin for a representative group of companies was approximately 10%. The foregoing factors indicate that for the recent period the margins may be about 15%.

The expected increase in investment income arises from the larger volume of funds available in the past year. With the pressure on capital positions eased as a result of a slackening in the growth in premium volume and a lower level of prices, some increases in the amount of equities held in the portfolios have been made. With quality stocks yielding considerably more than fixed income obligations and with a tendency to enlarge distributions to shareholders, this has meant fire insurance companies have been able to increase the return on their funds by such investments. On a comparison with last year investment income may show gains in the neighborhood of 10%.

Because of the larger proportion of net income in 1949 arising out of statutory earnings, the Federal income tax liability will be considerably larger. In the past few years the sharp growth in premium volume requiring substantial additions to unearned premium reserves and higher losses has meant the statutory underwriting profits have been small. In some cases losses have been reported. This has meant that income taxes have been negligible.

Now with the business adjusted to a higher level of operations the statutory underwriting earnings have improved with a resulting increase in the tax liability.

Regardless of this however, operating earnings should show substantial improvement over those reported in 1948. The results of the various companies will reflect the particular policies of the different concerns. The improvement over the previous period may average around 25% to 30% with individual concerns showing larger or smaller variations depending on the circumstance.

One of the few interim indications of results to be expected for the past year is the earnings report released for nine months ended Sept. 30, 1949, by the Glens Falls Insurance Co. Net earnings from all sources after allowance for income taxes amounted to $2,679,450 against $1,621,119 for the comparable period of 1948.

Premiums written by the Glens Falls group for the same period were equal to $36,146,000 and 10% more than the $32,728,000 written during the first nine months of 1948.

On the basis of some of the foregoing information we have attempted to make some tentative estimates of the earnings of a few of the major fire insurance companies for the year just ended. Figures are presented on a consolidated basis. Comparable figures are shown for the previous period. In the case of companies which have already paid stock dividends, Boston, Great American, Hartford and Insurance Co. of North America, adjustments have been made so that figures are on the same basis.

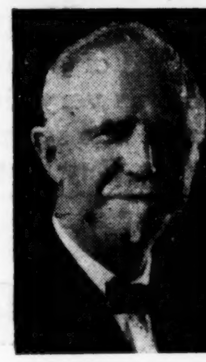
	1948 Per Share Earnings		Estimated 1949 Per Share Earnings	
	Investment Income	Total Net Income	Investment Income	Total Net Income
Aetna Fire	$3.42	$8.60	$3.65	$9.60
American Insurance	1.27	2.36	1.40	4.25
Boston Insurance	2.84	6.29	3.00	7.25
Continental Insurance	4.13	7.46	4.65	10.50
Fidelity-Phenix	4.64	8.44	5.10	11.50
Fireman's Fund	4.17	10.58	4.60	12.50
Firemen's (Newark)	1.72	4.30	1.80	5.25
Glens Falls	2.50	5.51	2.75	7.75
Great American	1.94	3.68	2.15	4.95
Hartford Fire	4.57	16.05	4.90	19.00
Home Insurance	2.15	3.10	2.40	6.00
Ins. Co. of No. America	5.89	11.38	7.10	15.00
Phoenix	4.97	9.27	5.25	11.50
St. Paul Fire	4.40	11.52	4.75	13.00
Springfield Fire	2.55	5.57	2.80	7.20
U. S. Fire	3.43	6.27	3.75	7.80

The Age of "Vidiots"

By ROGER W. BABSON

Mr. Babson, pointing out television is now big business, says it might reestablish home as family meeting place and become a helping hand in lowering juvenile delinquency and divorce rates. Warns, however, television can develop a race of idiots, if dominated by unprincipled entertainers.

The next decade may be known by future historians as the Video Age—the "V" stands for television. This has already become "big business."



Roger W. Babson

It is estimated that 10 million people watched our last national political conventions on TV. Double that number saw Truman inaugurated. How many local fans watched the Big League games this summer and fall is anybody's guess. People who never have been to a baseball game, football game, boxing bout or set foot inside a theatre, have become ardent home fans.

The folks who need this kind of diversion most—rural dwellers—cannot yet get TV in their homes. This is due both to the limited number of stations permitted by the FCC and to the present limits of TV broadcast radius. This will ultimately be remedied. In fact, by the year's end, the networks hopefully anticipate nearly three million sets in use. TV manufacturers, already beginning to count their 1949 profits, believe the cash registers will sing to the merry tune of a good $500,000,000 plus.

TV and Amusements

Practically every survey conducted thus far to measure the "looking" audience, indicates that people listen less now to regular radio. The day may well come, and soon, when AM radio will be as obsolete as the old crystal sets and earphones are today. The corner movie house is already feeling the pinch. Within the next half dozen years, we shall be able to view good movies right in our own living-rooms, and without the present eyestrain. It has already been reported that Broadway's box office receipts nosedive on Milton Berle night.

Sports promoters are worried too. Wrestling, boxing, baseball and football enthusiasts are forsaking the arena and ball field for the home video screen. College athletic directors are especially concerned. Intercollegiate football is a most expensive sport. Advertisers have found that with the same number of sets, television ads pull four times the sales of ordinary radio advertisements.

Television Pros and Cons

Schools and colleges have found as a result of the comic book, picture magazines, talking movies, and the radio that our youth even now can not read comprehendingly. They have become allergic to the printed page. Our children have also forgotten how to amuse themselves. Instead of developing into active participants, they are becoming passive bystanders They are becoming sluggish and lazy in this matter of their amusement. This is very unfortunate.

Television, however, has a tremendous opportunity to instruct and amuse constructively. Television might well reestablish the home as a family meeting place Video could become a potent force in helping to lower juvenile delinquency and crime rates: it could become a helping hand in lowering divorce rates. Television could bring to the home the broadening cultural experiences of seeing great paintings in a museum, or witnessing great experiments in the laboratory. Video could actually let us see great historic events in the making. Think of what your reaction might have been to a telecast of the Battle of Dunkirk or the Invasion of Okinawa.

Television Is Dynamite

On the other hand, television can develop a race of idiots. It's already on its merry way toward this goal. It can easily condition its lookers to something even less idiotic than pie throwing! What kind of future race of mankind do we want? The answer lies with parents, schools and churches. We can't afford to let unprincipled "entertainers" ruin America. Television is dynamite.

Irving Hankin Rejoins Merrill Lynch Firm

Irving E. Hankin, who started his commodity career with Fenner & Beane in 1929, has re-joined Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange, as manager of the commodity research department, Alpheus C. Beane, commodity division director, announced. E. A. Beveridge, former commodity research department manager, has been promoted to commodity economist, where he will be freed of routine duties to concentrate his attention on the fundamental forces affecting commodity prices, Mr. Beane said.

Five years after starting with Fenner & Beane, Mr. Hankin was named assistant manager of the firm's commodity department. He held this post for four years, and then joined with W. S. R. Beane, to form a partnership that traded in cottonseed oil on the New York Produce Exchange. Mr. Hankin returned to Fenner & Beane in 1939 as a floor broker and specialist in fats and oil.

When Fenner & Beane merged to form Merrill Lynch, Pierce, Fenner & Beane, Mr. Hankin stayed on in his previous capacity, but left in 1942 to go with the newly-formed Board of Economic Warfare. In 1944 he was made Chief of the Import Division of the Department of Agriculture controlling all imports of food into the United States.

Leaving the government service in 1946, Mr. Hankin joined Victor M. Calderon & Co., Inc., food import agents. Three years later he became general manager of Namrod Trading Co., Inc., Brooklyn, N. Y., packers of oils.

Mr. Hankin graduated from Brooklyn College in 1935 with an A.B. degree in economics. For the last few years he has given courses in foreign trade at the City College of New York and Walter Hervey Junior College. He is Secretary of the Olive Oil Association of America.

Henry Blair & Co.

Henry Blair is now doing business as Henry Blair & Co. from offices at 15 Broad Street, New York City.

C. R. Weaver Opens

NEW HOLLAND, PA.—C. R. Weaver is engaging in a securities business from offices at 116 East Main Street.

Outlook for Steel Industry

By TOM C. CAMPBELL*
Editor, "The Iron Age"

Asserting steel industry is in strongest position in its history, "The Iron Age" editor forecasts greater production and technical research, but warns, because of rapid technical obsolescence and higher wage costs, companies must make a reasonable profit. Forecasts 75 million tons steel output in 1950.

Today the steel industry is in the strongest position in its history. From an overall standpoint that is. It has the capacity to meet any emergency—domestic or international. Its prices are now realistic. Its profits should be reasonable ones that will allow a return to the stockholder and will provide some money to replace equipment that costs far more than the allowable depreciation.

Tom Campbell

It still needs the legal right to absorb freight when competing away from its home plants. When it has that the program for the steel industry will be befitting of the position it holds in the economy. It wasn't always that way. But it is now.

Its labor relations are the best in its history despite the strike of a few months ago. Breaches have been healed. Contracts will be lived up to by both sides. Of course, there will be more demands from labor. But the negotiations and controversies with labor will be settled or fought in a manner that will be a great improvement over a decade ago.

The industry has been sold on product and production research as never before. Its attitude on market research has grown to such an extent that much money is being poured into that channel. It has to be if steel companies are going to be able to intelligently use their plants and sell their products at a profit.

More important to the investors and the public is the forthright stand steel industry officials are taking on their relations with these two groups. There are today few, if any, steel companies who refuse to give whatever information is required or asked for by the public, by the press or by the stockholders. More frankness is coming this year and in the future.

But this new look on public relations means too that the steel industry will no longer stand to be a whipping boy at the hands of Congressmen or Administration people who do not know the facts or do not try to get them. Steel leaders will no longer take the guff from political people who base their blasts on hearsay and misinformation instead of trying to get the facts. The facts will be given. And they will be given in an understandable way to both the public and to political leaders who are involved in checking and harassing the industry.

What does all this mean? It means that the steel companies have realized that they have to make a profit to stay in business. If they are to do this they must pay for pensions. The rate of technical obsolescence is terrific. They must keep their plant and equipment up to snuff. They must get stockholders to realize they hold something that is worthwhile.

If they don't where will the money come from for expansions in the future for ore, for boats, for new plants, for machinery? This will be needed. One has only to look at the population figures to see the coming need. And it is significant that the public spending has more influence on the way steel goes than it ever did before.

But this costs money. The money will come from higher prices and better output per man. It will be a combination. More than ever will this be true in 1950. But the industry will have to tie in prices with any increase in labor and material costs if they pop up. There is good reason for steel people to be optimistic. Here are a few.

There should be a production of at least 75 million tons of steel in 1950. If it is lower than that something is wrong. The demand and need is there. We do not think the last 6 months will be as bad as the experts are thinking. The first 6 months will be good. But so will the last 6 months.

What is good? Good in steel is an average of 80% to 85% operations for the year. That is very good. There is nothing bad about a 65% operations when it is due to a normal seasonal pattern. And the normal pattern is back. We have to get rid of this idea that we can have 90% to 95% operations all the time. Things are not going to the dogs if we can't stay in the high 80's or 90's.

Steel men know this. That's why most of them have priced each steel item on its own cost and not on something of the past that no longer applies. That's why plans are made to beat the ore shortage. It has been beaten. There is no longer any fear of lack of ore in the years to come. That will cost money too.

Steel people are trying to get their breakeven point down because they know they can't always operate at high levels. But operating at 70% to 75% does not mean we are in a depression. Nor does it mean the industry will go far into the red. There will be plenty of competition. But there was before. That is what makes better steel and more of it where it can be used.

The management angle in steel is interesting. New men have come up in 10 years. They will take the places of most of the present high level people in the next 5 to 10 years. They are capable of doing it.

Present officials are well aware that the old idea of a one man company is no longer the criterion of good management. It is bad management. The problems of today involving selling, promoting, labor, pensions, costs and better equipment require more than one man could ever hope to know. No matter what the size of the company.

The trend has been—for the past 5 years at least—to get the right key men for the various problems and make it a joint effort with responsibility delegated. This used to be so much words. Now it is a fact in most steel companies. It is the key on which steel will grow and remain strong.

*Summary of remarks of a talk by Mr. Campbell at a meeting of the Association of Customer's Brokers, New York City, Jan. 10, 1950.

Otis & Co. Enters Their 51st Year

On Dec. 9, 1949, the well known national investment firm of Otis & Co. with offices in Cleveland, New York, Chicago, Denver, Dallas, Cincinnati, Columbus, Toledo and Buffalo, completed 50 years of investment banking service in its home State of Ohio and in other important sections of our country.

William R. Daley is President of the firm, Glenn R. Miller is Executive Vice-President while John A. Kruse, C. H. Weagle, Harry Irwin and John E. Dwyer are Vice-Presidents. Lyman G. Smith is Treasurer and Robert L. Kaiser Secretary. The firm, established in 1899, are underwriters, distributors and dealers in municipal and general market issues and unlisted securities.

The firm's buying department is under the management of Glenn R. Miller, Executive Vice-President; Theodore L. Bailey, Ralph T. Hisey, C. S. Iverson, Peter Hallaran and D. W. Graber.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has reported the following firm changes:

Interest of the late Eugene F. Malone, member of the Exchange, in Richard J. Buck & Co., ceased Dec. 31.

Edward H. Rakestraw retired from limited partnership in Coffin, Betz & Co. Jan. 1.

Max De Jong withdrew from limited partnership in Cohen, Simonson & Co. Dec. 31.

In DeCoppet & Doremus, interest of Charles Lee Andrews and the late Rowland Stebbins ceased Dec. 31; H. Snowden Andrews, general partner, also became a limited partner effective Jan. 1; Rowland Stebbins, Jr., and H. Lyman Stebbins, trustees under the will of Rowland Stebbins, deceased, were admitted as a limited partner Jan. 1.

Interest of the late Walter C. Winter in Dominick & Dominick ceased Dec. 31.

William H. Hassinger will retire from partnership in Garvin, Bantel & Co. Jan. 15.

Interest of the late Herbert E. Anderson in Green, Ellis & Anderson ceased Dec. 31.

Interest of the late Edwin M. Bulkley, limited partner, in Spencer Trask & Co., ceased Dec. 31.

Jaffe, Siegler & Co. Formed in Cleveland

CLEVELAND, OHIO — Jaffe, Siegler & Co. has been formed to continue the investment business of G. E. Jaffe & Co., Union Commerce Building. Edward N. Siegler is being admitted to partnership with George E. Jaffe. Milton B. Lewis will be manager of the mutual funds shares department, and Roderick A. Gillis will be trader. The firm will hold membership in the Midwest Stock Exchange.

With Rockwell-Gould

ELMIRA, N. Y.—Frank T. Betz, Jr., has been added to the sales staff of Rockwell-Gould Co., Inc., 159-167 Lake Street.

Economists Express Views on 1950 Outlook

At National Industrial Conference Board Forum opinion is expressed high level of activity will mark first half of year, with some slight recession in second half.

Fourteen of the nation's leading economists discussed the business outlook for 1950 at the latest "Evening With the Economists," held under the sponsorship of the National Industrial Conference Board. Clyde L. Rogers, Secretary of the Board, presided as Chairman.

The members of The Conference Board Economic Forum and guests of the Board were:

Murray Shields (Discussion Leader), Bank of Manhattan Company.

Jules Backman, Associate Professor of Economics, School of Commerce, Accounts and Finance, New York University.

M. R. Gainsbrugh, Chief Economist, National Industrial Conference Board.

Solomon Fabricant, National Bureau of Economic Research, Inc.

Edwin B. George, Economist, Dun & Bradstreet, Inc.

A. D. H. Kaplan, The Brookings Institution.

Malcolm P. McNair, Professor of Marketing, Graduate School of Business Administration.

***Sanford S. Parker**, The Conference Board.

***Roy L. Reierson**, Bankers Trust Company.

Merryle S. Rukeyser, Economic Commentator.

***Helen Slade**, New York City.

Bradford B. Smith, Economist, United States Steel Corporation.

Rufus S. Tucker, Economist, General Motors Corporation.

*Guests.

A summary statement of each participant follows:

George Sees First Half of 1950 Promising; Less Optimistic for Last Six Months—I think the first half is going to be good. . . . My figure for gross national product in the first half is somewhere around $265 billion, annual rate. This, I believe, is several billion above the first half of 1949 and even more above the annual rate in the third quarter. . . . In the second half, I expect a fall, and the figure which I have selected to express my general nervousness is $255 billion. . . . I expect private construction to rise a bit for the first half in contrast to the record for 1949. The figure that I am using is $17.8 billion, annual rate. . . .

Edwin B. George

. . . In 1950, I expect some slight recovery in the inventory holdings. I think there will be some efforts which won't be entirely successful in the first half because both of spot buying out of GI life insurance refunds and of the resurgence of demand following the fourth quarter 1949 strikes, and I think some of it will carry over to the second half. But there is no great magnitude involved in either estimate. In other words, about $1 billion for the first half and possibly less for the second.

As to the export balance, I foresee no change of much consequence from the third quarter 1949 annual rate, which was a surplus of imports of $1 billion on private account. . . .

. . . Federal outlays will be in a slow upward trend through first half of 1950. Thereafter, stability or a slight decline. I am counting upon some small contributions to the Eurepean arms aid, and some small increase in the national defense offsetting a decline in ECA. Net result, up $1 billion or $2 billion.

Shields Sees Decline in Second Half of 1950—As to the outlook for 1950, it has seemed to me that the best working assumption is that business will be pretty good for a few months, and then we will face the risk of at least a moderate drop in business volume, in prices and in income. Whether that decline will be severe or moderate, it seems to me, will depend primarily on government policies, for it must be remembered that 1950 is an election year, and I personally question whether the Administration would hesitate to use its powers to the full in order to prevent any drop in business from assuming politically embarrassing proportions. . . .

Murray Shields

. . . . Business ought to be prepared for decline some time in the second half, which would bring the level of production to a somewhat lower low than was reached in 1949. At its worst, this decline would approach in severity the one we experienced in 1937-1938.

But the important thing from the standpoint of business planning is to assume that we will have no big bust in 1950.

Kaplan Sees 1950 as Remaining High, but Slightly Below 1949 Levels—I expect 1950 to remain high but end off somewhere within 5% lower than 1950. In my thinking, that decrease will be made up of practically no decrease in consumer expenditures; decrease in capital formation and industrial commercial construction of possibly 10% to 15%, and in plant equipment, in the way of tools, machinery, that may run to 20%. . . .

. . . One of the things that is likely on the whole to keep up a high level of GNP in 1950 is the realization that we have less cause now for expecting a price drop. . . . There is growing recognition of the fact that we are definitely on a high consumption level; that the high level of wage rates is not likely to yield in soft spots, because those soft spots are so tied to general labor policy over the entire area of industry; that government price supports are going to stand back of the agricultural sector; that pensions are going to be a continuing overhead, on a rising scale. It seems to me that those, plus our continuing foreign obligations, will add up to the necessity of continuing with a very high level of monetary outlays.

On the other hand, just because of the inflationary setting, I believe that there will be good consumer response to price concessions; that they are going to be regarded as opportunities to do some buying in spite of the fact that the general tendency is for high prices to continue.

I think that as backlogs in particular areas are temporarily met we are going to see evidences of much more severe competition than we have had before. . . . I am inclined to the view that the profit picture for 1950 will be more clouded. At least profit rates will be significantly lower than they were in 1948, even though the total GNP may keep up. In other words, I don't believe that profits will take as large a share of the total national income.

So far as capital formation is concerned, I believe that is the area which will account mainly for whatever drop there is in 1950 below 1949. I think that the 1948 rate of nearly 15%, which dropped to around 14% for 1949, may dip perhaps another three-quarters of a point for 1950 as a percentage of the total GNP.

All in all, then, whatever readjustments may be in store for something that we can recognize as a cyclical turning point at some later date, I don't believe they are going to reach any such proportions in 1950. I expect a very moderate drop from 1949.

Reierson Sees Downward Trend—I have the definite feeling that business plant and equipment spending has topped off; in fact, it probably reached its peak in the latter part of 1948. . . . The last quarter of 1949 will be down in comparison with the last quarter of 1948, probably by about 15%, after reflecting year-end adjustments. Furthermore, I believe that the downward trend is going to continue into 1950. . .

Roy L. Reierson

. . . In spite of the budget and cash deficits in prospect, I come out with the conclusion that the inflationary impact on commodity prices is not likely to be significant in 1950.

First Half of 1950 Seen as "Pretty Good" by Backman—I think 1950, the first half, is going to be pretty good. I think there are several factors which will play a very important role in the first half. One is the GI insurance repayment which runs a little less than $3 billion. Another is the aftermath of the strikes, which is going to have a favorable impact upon the durable goods industries, and I am including in that housing. I think that the nondurables may not do quite so well, because inventories have probably increased for the nondurables while they were being reduced for the durables. . . .

Jules Backman

. . . . Industrial production in 1950 will be greater than in 1949 because, I think, it will be closer to a replacement basis than this inventory decumulation which was so characteristic of 1949 and which ended about July or August.

Apart from the strikes, I think we reached the bottom at that time, and we were beginning to pick up the current level of production to the current level of sales, and replacing some of the inventories that were depleted. I find that was the case in many industries. . . .

. . . I am a little uncertain concerning the second half, but I am inclined to agree that politics dictate an upturn in government spending, which, I think, will act as a cushioning factor in the second half. I don't look for 1950 to be a bad year.

Helen Slade Sees Trend Down, Then Up, in 1950—Fluctuations and recession of some gravity will punctuate the first half of 1950. Then, unless we run into improbable turmoil, the remaining part of the year promises to be one of fairly good business. During the first months, a continued tapering off in capital goods production may be as detrimental to prices as was the contraction in soft goods and nonferrous metals last spring. A diminished volume of capital goods generally has an oppressive influence on markets. Besides this, there is reason to expect increased competition which will tend to lower all prices, especially those of automobiles, radios, household equipment and dwellings.

Helen Slade

McNair Sees No Pronounced Changes in 1950 Over 1949—I should agree that 1950 will not be a year of very pronounced changes from 1949. Such changes as there are, I should expect in total to be on the down side rather on the up side. Specifically, I should look for a Federal Reserve Index figure somewhere in the area of 170 to 180; GNP somewhere in the area of $240-$250 billion; general wholesale price index hanging in the vicinity of 150, with no very great movement, more likely to be down than up; consumer prices, perhaps 165-166, again with a little more tendency down than up; nonagricultural employment hanging fairly steady in the vicinity of 50 million; greater unemployment because of a larger work force, a factor which undoubtedly will attract the significant attention of politicians during an election year; retail sales on the whole a little under 1949, but not very much.

Prof. M. P. McNair

Personal income I should guess to be relatively lower on the whole, perhaps on the order of $210 billion. The spending ratio I should expect to remain about the same. I doubt if there will be any increase in the spending ratio and probably not much, if any, decrease.

Business inventories may decline very slightly in the first half and pick up a little in the second half, but I think the movements will be relatively small in magnitude. I feel quite certain that business profits will be lower in 1950 than in 1949, perhaps something on the order of $13 billion or $14 billion. . . .

. . . I think that possibly the second half of 1950 will be a little better than the first half. . . I think we might expect that the pressures on the down side, all of which have been mentioned, the declining demand for capital goods, and automobiles, which all may become manifest before the end of the year, the effect of foreign devaluations of currency, the effect of large agricultural surpluses—all those are factors operating on the down side—would produce somewhat greater effects in the second half of the year. But my hunch is that in an election year the government will be at substantial pains to push up business activity during the second half, with larger government spending for social benefits, welfare-state types of activity.

In that connection, it seems to me that we ought to speculate a little on the possibility that the cold war may warm up a little. . . . We have been a little on the down side of the expectation with respect to the cold war lately; and I think the chances are that Stalin will move to eliminate Tito during 1950, and that might very well kick up once more a war scare; and a war scare, of course, would be heaven-sent from the standpoint of an administration needing to do spending to push up business activity. . . .

. . . I think the inflationary feeling is again getting in the air. I think we are balancing between the inflationary and deflationary factors, but with the knowledge of everybody of what is going on basically along the lines of inflation trends. I believe expectations will counteract and put a brake on the deflationary forces; and in an election year I expect that that brake will be fairly effective and will therefore give us a somewhat better second half than first half.

1950 Should Show Nothing Worse Than 1949, Perhaps Even Something Better, According to Fabricant—If I were to use the naive model, I would say that 1950 ought not to be any lower than 1949. For many of the monthly indicators generally used in determining the trend of business conditions seem to have reached their bottom some months ago and are now rising.

Dr. S. Fabricant

If that is an indication of what we may expect, I would go along, then, in saying that 1950 should show nothing worse than 1949, perhaps even something better. But I would immediately follow the conclusion derived from this naive model—or it can be sophisticated, the results have been about equally erroneous—by saying that the forecast is subject to an error of plus or minus 10%, or so.

No Marked Change, Up or Down, Seen by Gainsbrugh—I would say that as a group we felt the first half would be influenced by the favorable outlook for construction. The high starts mean a substantial volume of construction carried over into the first half of 1950. But there is some degree of uncertainty as to what that pattern would look like in the second half.

Martin R. Gainsbrugh

On the other hand, several forum members seemed to be saying that we were in for a downturn in the first half of 1950, not marked at all in dimensions, but still sufficient to create concern and then some degree of upturn in the second half. Definitely in the minority is the outlook for a downturn in the first half and a continuation of a downturn in the second half. . . .

. . . I, too, am uncertain about the course of capital formation in

the second half of 1950. But in my own mind, as each quarter of each year demonstrates again the stability of prevailing levels of high consumption, there is an increasing tendency on the part of industry to recognize the greater dimensions of consumer markets and to embark upon further expansion. . . .

. . . That, however, is a long-range rather than a short-run consideration. In terms of 1950, I, for one, believe we should have a high level of activity in the first half. Some slight degree of recession may appear in the second half, but nothing startling or depressing.

Smith Sees "Drift Rather Than Dive" Into Unsatisfactory Economic Conditions—I think we have to look forward to something rather new and curious and perhaps only gradually alarming, and that is a drift rather than a dive into unsatisfactory economic conditions. This is going to be met, as has already been indicated around the table, by a resort to deficits. . . .

Bradford B. Smith

. . . I think it is much more important in business plans to anticipate the kind of a trend which I have been trying to describe, if it is true, than it is to try to pin-point a particular figure for some month in the future. I will say that I think that unemployment a year from now will be greater than it is today. . . .

. . . And so I find myself in a quite upside down position with reference to the position I have heretofore taken at these annual meetings. Heretofore, I have warned not to be fooled by what looked like unfavorable developments into believing that "old-fashioned" reaction into deep depression was imminent. This time I have to say, "Don't be fooled by what looks like favorable developments into thinking that we aren't moving into a period characterized by a persistent trend which, as the years go by, we won't like."

Tucker Sees First Half of 1950 Better Than Last Six Months of This Year—At the present time, though, I think the first half, speaking not only of the automobile industry but of the economy in general, will be higher than the second half of next year. . . .

Rufus S. Tucker

. . . I mean there is a trend, I don't say that it is going to continue indefinitely, but I mean that at any time next year I should say this index (Federal Reserve Board) in the 160s would not represent anything to be alarmed about. It would represent a normal and slightly better than normal condition in the whole national economy, because it could be consistent with a high degree of activity in all the important activities of the country, which are not included in the index, and that means about three-quarters of them as measured by relative employment.

CED Outlines Tax and Expenditure Policy

Its program for fiscal year 1951 would reduce taxes by $2 billion and cut government outlays $6.7 billion, and thus create cash surplus of $3 billion. Proposed reduction of excises, revision of dividend taxation, and removal of exemption from income taxes of interest on municipal securities.

The Research and Policy Committee of the Committee for Economic Development, whose Chairman is Marion B. Folsom, Treasurer of Eastman Kodak Corporation, has submitted a Federal taxing and spending program for fiscal year 1951 which would reduce expenditures $6.7 billion below current levels, make possible a tax reduction of more than $2 billion and create a cash surplus of $3 billion under conditions of high employment. The surplus would be applied to debt reduction.

M. B. Folsom

"Because of its size—over $40 billion—and its composition, the present Federal tax burden is a serious impediment to economic growth and a source of important inequities," the Committee said.

"There is no ideal solution to the budget problem," the Committee said. "We cannot have, at the same time, all the expenditures that might be desirable, all the tax reforms and reductions that might be desirable and a sound budget policy" until the growth of the economy's productivity can meet such demands.

The Committee believes that the best solution for the fiscal year which begins July 1, 1950, "the one most consistent with the demands upon the Federal budget, with the requirements of sound finance, and with the conditions of economic growth, would be:

"(a) Provide for a moderate budget surplus to be realized under conditions that make a surplus possible and desirable, namely, conditions of high employment;

"(b) Reduce or postpone expenditures that are not immediately essential to the national security or general welfare, and operate all programs more economically and efficiently;

"(c) Revise the tax system in ways that will yield the most benefit to the whole economy from the small net revenue reduction that seems possible with the achievable expenditure reductions.

"This is, in our opinion, a feasible program. Examination of the budget reveals large items that will automatically decline in the next year, other expenditures that have far outgrown the purposes for which they were intended, and numerous opportunities for greater economy."

All figures used by the Committee in its recommendations and estimates for fiscal 1951 are based on a cash-consolidated budget. This shows total cash payments to and from the public, including trust account operations which are excluded from the regular administrative budget. For the purpose of determining total revenues and expenditures, the Committee prefers the cash-consolidated method of budget presentation since it gives a clearer picture of the effect of Federal receipts and outlays on the general economy.

The Committee recommended that the following steps toward tax reform be taken in 1950, pointing out that all but the first two would cost little or nothing initially in lost revenue:

(1) **Revise excise tax rates,** "reducing their net yield in the order of $1 billion." The Committee pointed out that "taxes which enter into the costs of doing business—such as the taxes on transportation and communications—raise the prices of almost all commodities, including the necessities of life, and therefore particularly affect persons with small incomes. Moreover, such taxes may raise prices by more than the amount of the tax, resulting in a burden to the consumer out of proportion to the revenue yield." Referring to its previous recommendation that all excise taxes be eliminated except those on liquor, tobacco and gasoline, the Committee said "excise tax reduction cannot be carried this far under present revenue requirements. However, an important step can be taken next year by the repeal in whole or in part of the wartime excise rates that were designed to meet wartime necessities."

(2) **Reduce double taxation of dividends.** The Committee recommended "that the first 16.6% of the corporate income tax be considered a withholding tax on distributed profits." A stockholder, in computing his individual income tax, "would include in his income his cash income plus the tax withheld by the corporation. The amount of the tax he pays would then be the tax on this total income, calculated in the ordinary way, less the amount of the tax that had been withheld. The revenue cost of such a plan is approximately $1 billion at high employment levels."

(3) **Require payment of Federal income tax on interest income from future state and local security issues.** "Additional Federal revenues, possibly around $35 million, would be obtained in the first year and increasing sums thereafter."

(4) **Permit businesses to deduct the losses of one year from the profits of the five following years in computing taxable net income (extending the carry-forward from two to five years).** "This change would cost nothing for the first two years and little in the third year although revenue losses would follow at the rate of approximately $500 million a year thereafter," the Committee said.

(5) **Eliminate the 53% "notch rate" on corporate profits from $25,000 to $50,000 under which incomes within that range are taxed at a much higher rate than those above or below that bracket.**

"This could be accomplished by applying a gradually rising scale of rates to the first $50,000 of income of all corporations," the Committee said.

(6) **Revise "Section 102 of the Internal Revenue Code applying a penalty tax to corporations that accumulate profits for the purpose of avoiding payment of individual income tax by stockholders.** The law as it now stands has caused some uncertainty and confusion." The Committee recommended that the law "be amended to create a presumption that in the case of operating companies, profit accumulations are reasonable unless the Treasury shall prove the contrary. However, the unreasonableness of the accumulation, once established, should continue to be considered proof of purpose to avoid tax unless the taxpayer shall prove the contrary."

(7) **Improve administration of the present policy with respect to charging-off capital assets for tax purposes "to make its application more reasonable and clear, without significant loss of revenue."**

These tax reforms "would be only a step, although a long step, in the direction of tax improvement," the Committee said. "There would still remain on the tax agenda further reduction of excise taxation, liberalization of the rules covering depreciation allowances, provision for averaging in the individual income tax, elimination of the tax on intercorporate dividends and consolidated returns, and reduction of rates of individual and corporate income tax.

"It may be possible to reduce expenditures in 1950-51 by more than we have suggested and so to achieve some of these important additional reforms. If so, the possibility should certainly be grasped. Equally essential, we should look beyond 1950-51 and plan for the future tax reductions that wise policy will permit."

"The President, with the assistance of the Budget Bureau and the cooperation of the departments, has made important contributions to expenditure control, especially in the fields of national defense, public works and foreign aid," the Committee said, but it added that the task still "is a formidable one, involving not only control of existing programs, but also restraint in dealing with dozens of proposals that would greatly increase Federal expenditure." Sound budget policy will be achieved only by vigorous effort on the part of the Administration and the Congress and active support from the public."

Harold S. Smith Starts Second 50 Years

Harold S. Smith, a partner in the firm of Minsch, Monell & Co., 115 Broadway, New York City, members of the New York Stock Exchange, and manager of that firm's Municipal Bond Department, Jan. 9 started his 51st year in Wall Street. Mr. Smith said:

"This is small reason for celebration, yet it is something to have been in Wall Street for 50 years and still able to preserve a reasonable amount of sanity. I told a white lie about my age when I got my first job. If I were asked my age today, I fear I would be inclined to take off the three years I added in 1900. They say the first 50 years are the hardest, but from all indications the second 50 will be equally hard."

Kidder, Peabody to Admit

Kidder, Peabody & Co., 17 Wall Street, New York City, members of the New York Stock Exchange, will admit Albert F. Donohue to partnership on Jan. 19.

Public Utility Securities

By OWEN ELY

American Power & Light (New)

American Power & Light is ending its career as one of the major holding companies on Feb. 15, but it will continue as a holding company on a reduced and recapitalized basis, controlling only three of the system's far-flung subsidiaries, those located in the northwest. One of these, Portland Gas & Electric, will soon leave the system, since it will have to be recapitalized and the holding company's greatly reduced equity interest will then be disposed of. The other two companies, Pacific Power & Light and Washington Water Power, are hydro-electric companies living under the menacing shadow of the great Federal power projects on the Columbia River—Bonneville, Grand Coulee and others.

This has been a favored area for proponents of public ownership. In addition to the Federal projects, a number of small public power districts or "PUD's" have sprung up, organized for the sole purpose of acquiring parts of the large utility companies serving those states. The PUD's have succeeded in taking over a number of outlying sections of Puget Sound Power & Light and of the American P. & L. subsidiaries, but the process has been hindered in the state of Washington by litigation. There has been a long political fight over the rights of these PUD's to combine and make joint purchases—which would greatly speed up the process of transferring private power to public control. The situation as affecting Puget Sound P. & L. was described in ths column in the Dec. 1 "Chronicle."

Usually these sales to the PUD's have been made on a very favorable price basis as compared with plant values on the company's books, which usually reflect depreciated original cost. The districts have usually paid larger amounts than book value, since sale prices were usually fixed by jury condemnation awards, and the jurors gave substantial weight to reproduction cost, which in recent years has been substantially above original cost. Moreover the districts have raised their purchase funds through sale of tax-free revenue bonds, and the new owners do not have to pay any Federal income taxes against earnings . However, the utility companies, when they have received such favorable prices, have in some cases had to pay capital gains taxes.

American Power & Light on Jan. 5 reported that it had contracted to sell the entire common stock of Pacific Power & Light to a banking syndicate headed by B. J. Van Ingen & Company, for a price ranging between $10 and $19.5 million, the exact price depending on the eventual prices obtained by the syndicate in the resale of individual parcels of the company's property.

The aggregate book value of the common stock of Pacific P. & L. as of Dec. 31, 1948 approximated $14.7 million. It may take considerable time to work out sales details, and without further data it is difficult to appraise the potential effects of the proposed sale on the future market value of American Power & Light (new), or the resulting effects on the stock of the old holding company which is soon to be dissolved. It seems likely that eventual sale of Washington Water Power may also be planned. That company has a considerably larger stock equity (in millions of dollars) than Pacific Power & Light, but its sale may be delayed by current litigation over the new Washington state law which was passed about a year ago to increase the powers of PUD's, permitting them to "club together" and to buy properties outside their own districts.

The base price of $10 million proposed for Pacific Power & Light would be about one-third below the estimated book value (up-to-date figures are not yet available), while the maximum price would be about one-third in excess of book value. American Power & Light is selling currently around 17½ compared with its book value per share in excess of $19. The present price would seem to be several points above the normal market excluding sales possibilities, and seems to discount a sale of both properties at somewhat better than the base-price level—assuming that Washington Water Power were to be sold on a basis similar to the present sales contract for Pacific P. & L.

In utility circles the announcement of the proposed sale aroused adverse comment. According to the New York "Times," it set off a "chain reaction of protest" from other utility officials in Washington, Oregon, Idaho, Utah, Colorado and Montana. Utility companies in these states have been opposing public power, fearing that like Nebraska they would become all-public-power states. Mr. Allen, according to the "Times," defended his action as being in the best interests of stockholders, and explained that he had been unable to obtain Federal or State authority to merge his two properties in the northwest. An application is now on file before the SEC for permission for American P. & L. to contribute the stock of Pacific P. & L. to Washington Water Power, making the former a subsidiary of the latter.

It is reported that at an SEC hearing on the proposed sale, set for Feb. 24, opposition would be indicated by the public service commissions and the governors of Washington and Oregon. Perhaps these authorities are apprehensive that the sale would play into the hands of the Truman Administration, which wants to create a huge billion-dollar Columbia River Administration similar to TVA. State officials in the northwest are said to fear that the Administration, as now proposed in a bill before Congress, would over-ride and dominate the state authorities as well as the private power interests.

Seymour & Company

Seymour & Company is engaging in an investment business from offices at 123 William Street, New York City. Partners are Seymour Dubin, Israel Berg and Alice Habib.

Chester E. de Willers Dead

Chester E. de Willers, head of C. E. de Willers & Co., New York City investment firm, committed suicide by turning on the gas jets of the stove in his summer home at Stoney Brook.

NAM Bases Permanent European Recovery on U. S. Foreign Investment

Report prepared by Erik T. H. Kjellstrom holds, from viewpoint of free enterprise, neither domestic recovery nor international trade developments are satisfactory. Points out prospects of elimination of tariff barriers are not favorable.

Hopes in Europe for continued recovery after the scheduled end of Marshall Plan aid after 1952 rest not upon possible European economic union, but rather upon American private investment abroad, the Point IV program and United States economic stability, according to a report just released by the National Association of Manufacturers.

The report, which is soon to be published by the association, was prepared by Erik T. H. Kjellstrom, associate director of the NAM's research department, who made a tour of Marshall Plan countries recently to gather first-hand information on Western Europe economic conditions, especially as affected by the European Recovery Program.

While the Marshall Plan has given Western civilization "a chance to revitalize itself," the study said, from the viewpoint of free enterprise "neither domestic recovery nor international trade developments are satisfactory."

"From the viewpoint of the social democratic parties in power, the economic developments have no doubt been quite satisfactory," the report observed. "Their followers are, as a whole, better off and the basic problems of the balances of international payments have not had to be faced. The questions of high costs and high living standards are temporarily, at least, submerged by national barter transactions and dollar aid."

It was found in the NAM study that "the Europeans themselves are afraid that they indulge in wishful thinking when they attempt to visualize an effective European union."

"They point out, for instance," the report continued, "that mere customs unions are difficult to administer in the best of circumstances and that a European union would, in reality, imply also a coordination of economic and political life in other parts of the world where European 'possessions' are located."

European economists and businessmen emphasize that there are worldwide problems to be solved and that a mere increase in productivity in Europe itself would be insufficient for the maintenance of high living standards, the study said.

The future role of American private investments and the potentialities of President Truman's Point IV proposals to aid underdeveloped areas are widely regarded as a key to the "dollar gap" problem, the report pointed out, explaining that if the European countries were given an opportunity to export to the presently underdeveloped areas, "at least a part of the dollar problem could be solved."

"However," the study observed, "none of the aforementioned problems can be isolated from the question of American economic stability and trade policies. In every country and in almost every office visited during the survey, it was said that the future economic well-being of Europe after 1952 lies in the hands of America."

Europeans are convinced, said the report, that in the long run any creditor nation must develop an unfavorable balance of trade. So far, American exports have exceeded imports by considerable dollar amounts, it added, and from the European viewpoint, the logical step for the United States to take would be to facilitate imports, perhaps by lowering customs duties.

The bilateral trade system has become "part and parcel of economic planning," the report continued, and unless the domestic factors of production can be freed in the individual countries, and internal mobility of capital and labor increased, "the likelihood of a shift from bilateralism to multilateralism in the international trade field is remote."

The system of licenses and quotas, with little regard for the exchange values of the currencies, has given the civil servant "a chance to assert themselves," and affords considerable protection to businesses which have their products accepted on the government lists offered in bilateral negotiations, the report noted.

"Thus, the whole economic philosophy of socialism is spread underneath the network of bilateral trade agreements," the NAM report added. "As currency convertibility cannot be effective until trade regulations are eliminated, the basic problem is political rather than economic."

It is "somewhat peculiar" to find, the study continued, that many leading socialists agree that increased production and increased productivity are necessary, and that in the long run the currencies of their own separate countries must be given a fair value in the world markets—while at the same time they insist that taxes must be kept high and imports and exports supervised, if not directly controlled.

"As long as statism and socialism maintain the upper hand in European political life," the report said, "there is little likelihood that the European and world rehabilitation problems will be solved along the lines of the American ideals of personal initiative and free competitive enterprise."

Referring to production, the report found that most European producers do not believe that they can afford to take the risk of organizing their production along American lines, and consider it necessary to continue to produce for limited markets.

"Some are of the opinion that the size of their plants is too small and that mass-production techniques are the only real solution," the study said. "This involves, of course, specialization and standardization which in turn require assurance that mass markets are available. But such markets can only exist where currencies are uniformly acceptable and trade barriers eliminated. In Europe of today, such mass markets do not exist. Currencies are not universally acceptable and hindrances to trade are greater than ever before."

Since the bulk of European producers are not prepared to risk introducing mass-production methods until currencies are again convertible, the question of production costs is not merely a problem of productivity based on an expansion of capital investments, the report pointed out, adding:

"It is a far broader problem involving some of the most basic issues of world cooperation and peace."

Mass production was not possible in the United States, it observed, until it was evident that goods could be moved freely over a large area.

"The existence of a national market has no doubt been a determining factor in our high level of productivity," the study explained. "Our comparatively low unit cost of production is intimately associated with not merely the size of the market, but also the fact that we have a uniform currency system.

"Today efforts are being made to reorganize the economic set-up in Europe, but so far there are no signs indicating that tariff barriers and other hindrances to trade will be eliminated. Nor are there any signs that Europe will have a commonly-accepted currency in the near future. Thus, European producers do not believe it sensible to introduce 'assembly line' methods. The question of cost of production, therefore, remains a matter of the prices of raw materials, the level of wages and of taxes."

Small Investor Course Begins February 9th

On Feb. 9 the first of a series of lectures on "The Small Investor" will be given at 212 Hamilton Hall, Columbia University, by Carl T. Hyder, manager of the uptown office of Pyne, Kendall & Hollister. The aim of the course is to cover the fundamentals of security investment, instructing in what to look for as a good investment, and what to avoid as unsound. The course, planned for the layman, will survey the whole investment field with emphasis on the present situation and possible trends and tendencies. It will cover industrials, railroads, public utilities, oils, chemicals, etc., and recognized specialists in different fields will appear as guest speakers.

The course will be given on ten Thursday evenings from 8:00 to 9:30, beginning Feb. 9. Fee is $15.

Notice to Holders of Mex. Railways Obligations

Pan American Trust Co., as fiscal agent of the Mexican Government, announces that the date after which no withdrawal of or alteration in assent to the Mexican Government's offer to holders of Mexican Railways Obligations may be made, has been extended to Feb. 21, 1950 from Jan. 18, 1950. It is further announced:

"At Dec. 7, 1949, holders of approximately 44% of eligible bonds of the Mexican Railways had assented to the government's offer. This amount had been increased since that date but the extension time is necessary because of delays in carrying out the necessary schedule of published notices in various European centers. The agreement provides that the plan will be declared operative by the Mexican Government when 55% of the eligible bonds have assented to the government's offer. The agreement may be declared operative by the government with the concurrence of the International Committee of Bankers on Mexico (1946) with a lower percentage than 55%. Copies of the amended Prospectus are available at the office of the fiscal agent in New York."

Harold M. Cummins Opens

BOULDER, COLO.—Harold M. Cummins is engaging in a securities business from offices at 1628 Walnut Street.

No Economic Basis for Price Control in Cold War

By BERNARD F. HALEY*

Professor of Economics, Stanford University

Asserting most economists agree resort to price controls and rationing should be avoided if possible, Prof. Haley points out such controls in peace, even under cold war conditions, are more difficult to carry out than during war. Holds, if cold war is for extended period, frozen prices would become obsolete, resulting in waste of resources. Concludes, real problem in defense economy is "maintenance of incentives to produce."

Regardless of what may be the requirements for economic controls under conditions of actual warfare, the presumption is against the use of price control or rationing in a cold war. Yet there are some economists who appear to be favorably disposed to the use of these direct controls if inflationary pressure should become considerable.

Bernard F. Haley

Most economists, however, would agree that resort to price control and rationing is to be avoided if at all possible. As compared with the indirect controls of fiscal and monetary policy, price control and rationing are likely to be more expensive to administer and enforce; they are regarded as infringing upon the freedom of the individual to a greater extent, and as more subject to abuse by the bureaucracy; they seriously impair the usefulness of the price system as a guide to production in the civilian sector and as an automatic rationing device; and they are likely to have more serious postwar consequences for the economy.

The difficulties that price control and rationing involve are, moreover, likely to be even more serious in an advanced defense economy than in a war economy. One of the reasons that, while World War II lasted, OPA was more successful than many ever thought possible was the fact that individuals and business enterprises were willing to permit balances to accumulate to an extent that could hardly have been anticipated.

To a very considerable extent, this willingness to hold liquid balances and to postpone purchases until after the war was dependent upon the expectation that the war would not be a long one. On the other hand, in the case of the present cold war, the conservative expectation is that it may, and probably will, be a very long one. If under these circumstances we should undertake to suppress inflation with price ceilings and rationing, I doubt very much whether we would be aided, as we were in World War II, by the willingness of people to postpone their buying and to accumulate balances. It may seem too long to wait.

Other difficulties, in the case of price control in particular, will develop if the cold war period should turn out to be a long one. Frozen prices would become obsolete, with the result that resources would be wastefully employed, consumers would have just cause for irritation, and honest manufacturers would suffer injustice. The alternative of fixing individual prices by administrative action is beset with staggering difficulties, the seriousness of which is likely to be greater the longer the period during which the price ceilings are to be preserved.

Even if all of these difficulties could be met, it must be recognized that, in an advanced defense economy, there is even less likelihood than in a war economy that the attitude of the people generally would for long, if at all, be favorable to the success of the controls.

If, furthermore, the cold war should be a long one and if inflation is suppressed through direct controls, the amount of liquid balances that might accumulate could well become very large indeed. If then war should follow, the existence of these balances would make it all the more difficult to prevent inflation during the more critical period of actual warfare. To consider, on the other hand, the more cheerful prospect that war might be avoided, these large balances in that event would present the same difficult problem of post-emergency adjustment, only perhaps on a more serious scale, that confronted our economy at the close of World War II.

Not only, then, is there a general presumption against the use of price control and rationing, but the case against their use actually appears to be stronger in the case of a cold war than in the case of actual warfare. It follows that direct controls of this kind should not be employed in an advanced defense economy if they can possibly be avoided.

To what extent can they be avoided? Let me indicate certain situations in which some might take the view that price control or rationing, or both, could not be avoided, but with respect to which I would maintain the contrary view.

First, I would be unwilling to recognize, as appropriate for direct controls, the situation in which it is allegedly easier from the political standpoint to obtain the executive authority to impose price control or rationing than it is to convince legislators of the necessity of raising tax rates high enough, and of authorizing other indirect controls adequate for the control of inflation. It is doubtful whether this is likely to be the case. But in any event, the economist is not under the obligation of supporting a program of doubtful wisdom on the basis of political expediency.

Second, there is the situation in which, as the defense program is stepped up, the price system is called upon to facilitate the transfer of resources from the production of civilian goods to the production of war goods. Although it would be easier to effect this transfer of resources as rapidly as necessary in a cold war than it would be in case of actual warfare, it still may be a temptation to prevent the very rise in prices of goods important to the defense program that would facilitate the transfer. But the imposition of price ceilings on materials employed both in the miltary and the civilian sectors would destroy, partly or wholly, the usefulness of the price system as a mechanism for the allocation of that part of these particular resources that would remain for the civilian sector. The situation is one in which the temptation to impose price control should be firmly resisted."

Third, consider the case in which fiscal and monetary policies have been applied so rigorously that there is thought to be a danger that a further increase in taxes might adversely affect production through reducing incentive to produce. Yet an inflationary gap still remains. Rather than further increase taxes, thereby discouraging production, it may be argued that the imposition of price ceilings or of general expenditure rationing will suppress the inflation without adversely affecting production.

In an advanced defense economy as in a war economy, the real problem, it should be noted, is to maintain at a high level the incentive to produce, while at the same time a large proportion of the product cannot be available as a reward to the civilian sector of the economy for its increased effort. Under these circumstances, the following are the means that might be employed for maintaining at a high level the incentive to produce: (1) an appeal to patriotism; (2) reward of the industrious with assets which might be made convertible into cash some time after the emergency is over; or (3) the provision of increased current money earnings, even though these increased earnings in money cannot be matched by a corresponding flow of consumption goods while the emergency lasts.

The first of these would be of little use in a prolonged cold war. I pass over the second because it lies outside the scope of this paper. Let us consider the third method.

In this case, we may either let inflation take its course, in the expectation that each person will thus be driven to work harder in order to hold his own; or we may impose price control and rationing in the hope of preventing inflation; or we may impose fiscal and monetary controls adequate to reduce spendable incomes to match the flow of available consumption goods. Inflation is obviously not the answer. Price control and rationing are also unsatisfactory, since as we have seen people are unlikely to be willing to accumulate large liquid balances in a prolonged cold war, and since in any event the remote prospect of being able to make post-emergency purchases with these accumulated balances would not offer much incentive, if any, to increased effort.

There remain fiscal and monetary policies, which are clearly the preferred method of control. Even in a situation in which, if these policies are employed sufficiently rigorously to eliminate an inflationary gap, it is thought that incentive to produce will be checked, there is nothing to be gained by relaxing the level of taxation and substituting price control and rationing. If the balance of disposable income left to civilians by a program of taxation adequate to prevent inflation should not be sufficient to induce maximum effort, it would be no improvement to permit disposable incomes to increase somewhat, with a repression of the accompanying inflationary tendency. The opportunity to accumulate unspent balances thereby afforded probably would have no favorable incentive effect in a prolonged cold war.

A fourth case in which it is likely to be held by some that price control or rationing, or both, would be justifiable is the case in which, in spite of the best possible program of fiscal and monetary controls, inflation develops because of the upward pressure on wage rates under conditions of full employment—because of organized labor's effort to maintain its real income in spite of the reduced flow of civilian goods and services accompanying the defense of effort, or to use its strong bargaining position to increase its share.

This is not a problem peculiar either to an advanced defense economy or to wartime. If the level of employment is held high, either because the defense budget is large or for any other reason, the upward movement of wages and prices will be difficult or impossible to prevent by fiscal and monetary policies alone. Nor, however, are direct controls of wages, prices and the distribution of goods the answer to this problem.

In the absence of dictatorship, the means of checking the wage-price spiral in a full employment economy are likely again to be found in some procedure of collective bargaining between government, employers and employees; but it is neither necessary nor desirable that price control and rationing be involved in this procedure.

Are there, then, any cases in which it can be anticipated that some use of price control or rationing, or both, might have to be made in an advanced defense economy? I believe that there is one, although it is not a very likely one.

The one case is that of commodities that are important necessaries in the budgets of medium and low income groups, and whose supply is very inelastic. The difficulty in this case is that the distribution of income (and liquid assets) is so unequal, even when fiscal policy is adequate, that the prices of such scarce necessaries may rise so much that medium and low income families may be unable to purchase them even in the minimum quantities necessary for the maintenance of morale and efficiency. At the same time, a great increase in the prices of such commodities would have little or no benefcial effect upon their production. Rationing, even price control, may be justified in the case of such goods. But it is rather unlikely that, even in the case of war, there would be many commodities that would fall in this category; and it is not anticipated that they would occur at all in a situation short of war.

The conclusion thus seems to stand: not only should price control and rationing not be employed in an advance defense economy if they can possibly be avoided, but also, with one exception, the situations in which it may be claimed that they cannot be avoided do not stand up under closer scrutiny. The one case of important necessaries the supply of which is very inelastic is highly unlikely to occur in a cold war, particularly if the period involved is a long one.

*Summary of a paper by Prof. Haley submitted to a meeting of the American Economic Association on Problems of an Advanced Defense Economy, New York City, Dec. 27, 1949.

Henry Sears & Co. New Development Firm

Announcement was made today of the formation of Henry Sears & Co. to invest and be active in the development of existing and new enterprises, including real estate. Partners in the new firm, which will have its offices at 383 Madison Avenue, New York, are Henry Sears, John H. P. Gould and Charles E. Saltzman.

Mr. Sears is the former Executive Vice-President of Webb & Knapp and a former partner of Cross & Co.

Mr. Gould is the former Chairman of the Board of Webb & Knapp and a former partner of Cross & Co. Mr. Saltzman was formerly Assistant Secretary of State under General Marshall and a former Vice-President of the New York Stock Exchange.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

At a meeting of Jan. 5, the board of directors of the **Federal Reserve Bank of New York** selected N. Baxter Jackson, Chairman of the Board of Directors of the **Chemical Bank & Trust Co., New York**, to serve during the year 1950 as the member of the Federal Advisory Council from the Second New York Federal Reserve District, according to an announcement by Allan Sproul, President of the New York Reserve Bank.

* * *

Elliott V. Bell, former Superintendent of Banks of New York State, was on Jan. 5, elected a Director of the **Bank of Manhattan Co. of New York.** Mr. Bell who was recently elected Chairman of the Executive Committee of McGraw-Hill Publishing Co., was the first President of the New York Financial Writers Association. He is a member of the Council of Foreign Relations, a Director of the Foreign Policy Association and a member of the University Development Plan Committee of Columbia University.

* * *

At the annual meeting of the directors of the **Marine Midland Trust Co. of New York,** held on Jan. 11, George C. Textor was elected Executive Vice-President. Mr. Textor's entire career has been with the Marine Midland Trust or its antecedent banks. He started as a page boy in 1916. Following successive promotions he was made a junior officer in 1927 and Vice-President in 1940. In recent years, as a senior loaning and investment officer, he has been identified in the bank's relationships with the investment banking field. Mr. Textor is a director of the American Bosch Corp., Colorado Fuel & Iron Corp. and Fidelity Safe Deposit Co. Other promotions announced in Marine Midland Trust are: Allan W. Ames, Vice-President; Harold W. Rasmussen, Frank L. Byrne, James M. Kelly and John P. Maney, Assistant Vice-Presidents; Frank Werner and Robert W. Dougal, Assistant Treasurers.

* * *

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

	Dec. 31,'49 $	Sept. 30,'49 $
Total resources	4,779,689,820	4,507,112,607
Deposits	4,384,572,391	4,106,109,735
Cash and due from banks	1,280,491,136	1,099,289,314
U. S. Govt. security holdings	1,819,414,477	1,760,469,739
Loans and bills discounted	1,350,507 126	1,317,800,673
Undivid. profits	45,388,274	67,648,596

* * *

The **Chase Safe Deposit Co. of New York** received from the New York State Banking Department on Dec. 30 approval to a certificate of reduction of capital stock from $400,000, consisting of 4,000 shares (par $100) to $100,000, consisting of 4,000 shares of the par value of $25 each.

* * *

Walter C. Teagle, Jr., President of the Truck Equipment Co., has been elected to the Advisory Board of the Rockefeller Center Office of **Chemical Bank & Trust Co. of New York** according to announcement made on Jan 9 by N. Baxter Jackson, Chairman of the bank.

* * *

Alan T. Christie and Kellam Hooper have been promoted to the rank of Assistant Vice-Presidents of the **Bank of New York and Fifth Avenue Bank** at 46 Wall Street, New York, it was announced on Jan. 5 by A. C. Simmonds, Jr., President. Mr. Christie is one of the Bank's representatives in the Middle Western Division and also is responsible for its interests in Canada. Mr. Hooper represents the bank in Southwest territory. Other appointments were, G. L. Sheldon as Accountant and Assistant Comptroller, John F. Newman as Assistant Secretary, Richard B. Tuttle, Jr. as Assistant Treasurer, and Samuel H. Woolley as Assistant Secretary.

* * *

MANUFACTURERS TRUST COMPANY, NEW YORK

	Dec. 31,'49 $	Sept. 30,'49 $
Total resources	2,451,996,774	2,268,280,156
Deposits	2,281,747,791	2,094,366,917
Cash and due from banks	700,693,983	608,089,065
U. S. Govt. security holdings	1,078,980,291	998,899,704
Loans and bills discounted	557,375,053	555,237,010
Undivid. profits	31,964,648	32,093,716

* * *

Harvey D. Gibson, President of **Manufacturers Trust Co.** has announced that William E. Ford, Vice-President, has been appointed the head of the trust company's 149 Broadway office to succeed Grover C. Trumbull, Vice-President, who will continue with that office in a senior advisory capacity. Mr. Ford and Mr. Trumbull have been closely associated in the banking field for many years dating back to the former **Liberty National Bank** of which Mr. Gibson was President. Mr. Ford has been with Manufacturers Trust Co. since 1928. President Gibson has also announced that William H. Moore of the bank's Installment Loan Department has been appointed an Assistant Vice-President. From 1930 to 1936, Mr. Moore was associated with General Motors Acceptance Corp. In 1936 he joined the Installment Loan Department of Manufacturers Trust Co. and in 1946 he was appointed an Assistant Secretary.

In a further announcement President Gibson states that Tristan E. Beplat, Far Eastern Representative of Manufacturers Trust Co., has left for Tokyo, Japan, where he will establish a Representative's office for that bank. It is stated that the Representative's Office will not be a branch and will not engage in banking business in Japan. Its function will be primarily to maintain liaison with correspondent banks throughout the Far East, and to assist in the development of trade between the United States and the countries in the whole Far Eastern area. Mr. Beplat was formerly attached to the Military Government Headquarters in Tokyo, where he was Chief of the Banking Branch. He will be permanently stationed in the Far East.

* * *

BANKERS TRUST CO., NEW YORK

	Dec. 31,'49 $	Sept. 30,'49 $
Total resources	1,624,145,647	1,513,701,497
Deposits	1,431,527,783	1,316,710,746
Cash and due from banks	435,386,024	362,130,920
U. S. Govt. security holdings	532,298,777	532,789,300
Loans and bills discounted	576,710,609	540,975,782
Undivid. profits	37,169,138	56,440,166

* * *

Barnard Townsend, President of **Title Guarantee & Trust Co. of New York,** announced on Jan. 11 the election of Alex L. Hillman, publisher of Hillman Periodicals, Inc., as trustee of the bank. Mr. Hillman is a director of Henry Holt & Co., Inc. and a trustee of Pacific University in Oregon.

* * *

J. P. MORGAN & CO. INCORPORATED NEW YORK

	Dec. 31,'49 $	Sept. 30,'49 $
Total resources	666,778,009	795,965,138
Deposits	589,603,037	717,179,681
Cash and due from banks	164,459,613	204,820,084
U. S. Govt. security holdings	283,545,914	349,571,087
Loans and bills discounted	173,091,294	194,537,715
Undivided profits	10,900,181	20,613,633

* * *

In a notice calling attention to the annual meeting of the stockholders of the **Pan American Trust of New York,** on Jan. 18, John B. Glenn, President, indicates that action will be taken at that time on a proposed amendment of the certificate of incorporation changing the name of the institution to American Trust Co. The headquarters of the company are at 70 Wall Street.

* * *

THE COMMERCIAL NATIONAL BANK & TRUST COMPANY OF NEW YORK

	Dec. 31,'49 $	Sept. 30,'49 $
Total resources	205,868,681	210,982,240
Deposits	176,465,525	179,006,904
Cash and due from banks	53,379,166	53,274,381
U. S. Govt. security holdings	95,944,234	99,127,627
Loans and bills discounted	43,790,252	45,852,596
Surplus and undivided profits	14,496,162	14,399,067

* * *

CORPORATION TRUST CO., NEW YORK

	Dec. 31, '49	June 30, '49
Total rescurces	$2,111,723	$2,020,000
Deposits	108,303	117,100
Cash and due from banks	1,107,093	1,082,300
U. S. Govt. security holdings	419,744	418,500
Surplus and undivided profits	463,391	542,400

* * *

Walter Jeffreys Carlin, President of **Lafayette National Bank of Brooklyn, N. Y.** has announced the election of Edmund P. Looney as a Vice-President. Mr. Looney was a Vice-President of the **Public National Bank & Trust Co. of New York,** and has been in banking for over 25 years. He is Treasurer and Trustee of the Brooklyn Public Library; he attended St. John's College, Columbia University and the American Institute of Banking, and was graduated from the Graduate School of Banking of Rutgers University.

* * *

Wallace H. Sloat, who had been elected a trustee of the **Brooklyn Trust Co. of Brooklyn, N. Y.,** in December by the Board of Trustees to fill a vacancy, was reelected for a one-year term, at the annual meeting of the stockholders on Jan. 9; six trustees of the company whose terms expired were reelected by the stockholders for the three-year terms. They were: George A. Barnewall, Jackson A. Dykman, Clifford E. Paige, Richardson Pratt, Adrian Van Sinderen and Ogden White.

* * *

Incident to the merger of the **State Bank of Sea Cliff, at Sea Cliff, Nassau County, N. Y.,** into the **Nassau County Trust Co. of Mineola, N. Y.,** the opening of a Sea Cliff branch of the trust company on Dec. 27 was authorized on the date by the New York State Banking Department. At the same time the Nassau County Trust received approval from the Banking Department of plans to increase its capital stock from $500,000 consisting of 20,000 shares (par $25) to $600,000 consisting of 24,000 shares, (par $25). Plans for the proposed merger were noted in our issue of Dec. 1, page 2204.

* * *

Walter S. Bucklin, President of the **National Shawmut Bank of Boston, Mass.,** has been selected as a member of the Federal Advisory Council to serve for the year 1950, the **Federal Reserve Bank of Boston** announced recently. Mr. Bucklin, who is completing his 25th year as President of the National Shawmut Bank, was formerly President of the Liberty Mutual Insurance Co. He now serves as Chairman of the Board of the Liberty Mutual Insurance Co. He is also President and Director of the Devonshire Financial Service Corp.; President and Trustee of the Shawmut Association, and President and Trustee of the Shawmut Bank Investment Trust.

* * *

Three promotions at the **Federal Trust Co. of Newark, N. J.,** were announced on Dec. 29 by President David J. Connolly, it was indicated in the Newark "News," which states that at the directors' meeting on Dec. 28 William S. Cherry was made an Assistant Vice-President; he had previously been Assistant Secretary and Assistant Treasurer; he will have offices at the Hayes Circle Branch; Thomas J. Brennan was moved up from Assistant Controller to succeed Mr. Cherry in the secretarial and treasury duties; in the main office Robert R. Ferguson, Jr. was appointed Assistant Secretary-Treasurer.

* * *

FIRST NATIONAL BANK AND TRUST CO. OF PATERSON, N. J.

	Dec. 30,'49 $	June 30,'49 $
Total resources	152,862,202	150,695,338
Deposits	142,648,491	140,679,191
Cash and due from banks	19,864,213	22,790,896
U. S. Govt. security holdings	74,141,111	73,461,140
Loans & discounts	15,623,590	8,138,284
Undivided profits	3,193,824	3,019,730

* * *

CORN EXCHANGE NATIONAL BANK AND TRUST CO., PHILADELPHIA, PA.

	Dec. 31,'49 $	Sept. 30,'49 $
Total resources	301,403,567	284,110,913
Deposits	277,472,407	259,664,768
Cash and due from banks	76,706,151	60,967,421
U. S. Govt. security holdings	123,407,153	118,661,123
Loans and bills discounted	72,187,766	74,682,276
Undivided profits	3,002,709	2,863,911

* * *

FIDELITY-PHILADELPHIA TRUST CO., PHILADELPHIA, PA.

	Dec. 31,'49 $	Sept. 30,'49 $
Total resources	242,045,689	207,181,633
Deposits	215,978,152	178,868,233
Cash and due from banks	58,117,141	43,206,598
U. S. Govt. security holdings	67,400,081	52,567,860
Loans and bills discounted	70,575,619	69,289,357
Undivided profits	5,251,447	5,420,313

* * *

George C. Brainard, President and General Manager of the Addressograph - Multigraph Corp., has been reappointed by the Board of Governors of the Federal Reserve System to the Board of Directors of the **Federal Reserve Bank of Cleveland** for a three-year term beginning Jan. 1. Mr. Brainard also was redesignated Chairman of the Bank's Board of Directors and Federal Reserve Agent in the Fourth (Cleveland) Federal Reserve District for the year 1950. Recently, Mr. Brainard was appointed chief of the U. S. Army's Cleveland ordnance district. The Board of Governors redesignated A. Z. Baker as Deputy Chairman of the Board of Directors of the Cleveland Federal Reserve Bank for the year 1950. Mr. Baker is Chairman of the Board of the Cleveland Union Stock Yards Co. and President of the American Stock Yards Association.

* * *

Franklin J. Lunding, President of Jewel Tea Co., has been chosen Chairman of the **Federal Reserve Bank of Chicago** it was noted in the Chicago "Journal of Commerce of Jan. 3, which added that he was Deputy Chairman last year and his term as a director extends through Dec. 31, 1951. John S. Coleman, President of Burroughs Adding Machine Co. said the same advices, were appointed a Class C director for a three-year term starting at the beginning of this year, and as a Deputy Chairman for 1950.

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CONTINENTAL ILLINOIS NAT'L BANK AND TRUST CO. OF CHICAGO, ILL.

	Dec. 31,'49 $	June 30,'49 $
Total resources	2,553,106,391	2,188,780,892
Deposits	2,348,174,296	1,987,989,784
Cash and due from banks	671,839,585	555,272,474
U. S. Govt. security holdings	1,394,028,594	1,154,853,193
Loans and bills discounted	361,653,124	378,867,430
Undivid. profits	15,890,452	22,390,834

* * *

The capital of the **North Shore National Bank of Chicago, Ill.,** was increased, effective Dec. 24, from $400,000 to $500,000, by a stock dividend of $100,000.

* * *

Roger Shepard of St. Paul has been redesignated as Chairman and W. D. Cochran of Iron Mountain, Mich., as Deputy Chairman of the **Federal Reserve Bank of Minneapolis,** it was announced on Jan. 3. The Board of Governors of the Federal Reserve System, which made the appointments, also renamed Mr. Cochran as Class C director for the three-year term ending Dec. 31, 1952. W. A. Denecke of Bozeman, Mont., was appointed to a two-year term as director of the Reserve bank's branch at Helena, Mont.

* * *

The Board of Governors of the Federal Reserve System has reappointed Russell L. Dearmont, of St. Louis, as a Class C Director of the **Federal Reserve Bank of St. Louis** for a three-year term and has redesignated him Chairman of the Board and Federal Reserve Agent of the bank for the year 1950. Mr. Dearmont, Chief Counsel for Trustee, Missouri-Pacific Lines, has served as Chairman and Federal Reserve Agent of the Federal Reserve Bank of St. Louis since January, 1946. Wm. H. Bryce, Vice-President and Manager of the Dixie Wax Paper Co., Memphis, Tenn., has been redesignated Deputy Chairman for 1950.

The following have been appointed directors of the branches of the Federal Reserve Bank of St. Louis for three-year terms beginning Jan. 1:

Little Rock Branch: Stonewall J. Beauchamp, President, Terminal Warehouse Co., Little Rock, Ark., and Harvey C. Couch, Jr., Executive Vice-President, Union National Bank, Little Rock, Ark.

Louisville Branch: Smith Broadbent, Jr., Farmer, Cadiz, Ky., and A. C. Voris, President, Citizens National Bank, Bedford, Ind.

Memphis Branch: Hugh M. Brinkley, Planter, Hughes, Ark., and Ben L. Ross, Chairman of the Board, Phillips National Bank, Helena, Ark.

* * *

The **American Savings Bank in Atlanta, Ga.,** one of the oldest savings banks of the state, its history dating back to 1886, transferred on Dec. 30 all its deposits to the **Citizens & Southern Bank of Atlanta,** the latter having agreed to assume complete responsibility for all such deposits. As of that date the Citizens & Southern Bank of Atlanta also purchased the loans and some other assets of the American Savings Bank. On Jan. 3, at the former location of the American Savings Bank, 140 Peachtree Street, the Citizens & Southern Bank opened operations as the Peachtree Office of the C. & S. Announcement of this action was made jointly on Dec. 30 by Mills B. Lane, Jr., President of the Citizens & Southern National Bank, and George R. McKinnon, President of the Citizens & Southern Bank of Atlanta, following meeting at which the directors of the C. & S. Bank of Atlanta unanimously approved the action. The directors of the Citizens & Southern Bank of Atlanta, at the same meeting voted to increase the cap-

ital account of the bank by $300,000, which will bring the total capital structure to $605,000. The directors likewise elected Mills B. Lane, Jr., Chairman of the Board of the Citizens & Southern Bank of Atlanta, and J. Harrison Hopkins, Assistant Cashier. Mr. Hopkins, who has been with the Citizens & Southern National since 1935, has assumed charge at the new Peachtree Office. Incidentally, it may be noted, the Citizens & Southern Bank of Atlanta, of which Mr. McKinnon is President, had up to several months ago, been known as the Bank of Atlanta, the change in its title having been noted in our issue of Sept. 29, page 1286.

* * *

At a special meeting on Dec. 22 the stockholders of the **Grand Avenue State Bank of Dallas, Tex.**, voted to increase the capital from $100,000 to $150,000 through the declaration of a 50% stock dividend to shareholders of record Dec. 29. The Dallas "Times-Herald" in reporting this stated that the directors had previously voted an increase in certified surplus from $100,000 to $150,000.

* * *

The stockholders of the **Republic National Bank of Dallas, Tex.** ratified on Dec. 19 plans to increase the capital, referred to in these columns Dec. 15, page 2416. To quote from the Dallas "Times-Herald" of Dec. 19, the stockholders approved the proposal to issue 75,000 additional shares of common stock having a par value of $20 a share. The new stock will be offered to present stockholders at $40 per share, in proportion to the amount of stock already held. The paper added:

"Of the proceeds, amounting to $3,000,000, capital will be allocated $1,500,000, raising the capital aggregate to $13,500,000. Surplus will be increased by $1,000,000 to a total of $14,000,000.

"The stockholders approved the allocation of the balance of $500,000 to the capital of the Republic National Co., giving this company a new capital of $3,000,000. The Republic National Co. is a holding company affiliate of the Republic National Bank, with the capital stock of the company held in trust for the benefit of stockholders of the bank."

* * *

Action toward increasing the capital of the **Merchants State Bank of Dallas, Texas** has been taken by the stockholders, it is learned from the Dallas "Times-Herald" of Dec. 13, which states that according to President W. M. Beaver "the stockholders voted to increase the bank's capital by 2,500 shares, to be sold at $50 a share, to be paid in as part of the capital, bringing the total paid-in capital to $150,000. An equal amount will be allocated to the certified surplus, which will also be raised to $150,000. The remaining $25,600 will be credited to the undivided profit account."

* * *

Announcement was recently made in **Manila, Philippines**, that the assets and liabilities of the **Nederlandsch Indische Handelsbank, N. V.**, were to be acquired by the Manila Branch of the **Bank of America, National Trust & Savings Association, of San Francisco**, effective Jan. 1. The Nederlandsch Indische Handelsbank, N. V., one of Holland's greatest banking institutions, has been represented by branches in the East Indies and along the China Coast for more than half a century. Its Manila Branch was established in 1937. The Jan. 1 development is limited to the Philippine operations, the N. I. H. continuing to maintain its current operations in other areas of the Far East. Manager D. A. ten Grotenhuis of N. I. H. will join the Bank of America's permanent Manila organization. Francis J. Moore, former San Francisco banker who has been Manager of the Manila branch of Bank of America since its opening in 1946, will remain in charge of the combined operation and has been elevated to the position of Vice-President and Manager. Mr. ten Grotenhuis is to be second in charge with the title of Assistant Vice-President.

* * *

M. Dorman has been elected a director of the **Central Valley Bank of California, at Richmond, Cal.**, it was announced on Dec. 27 by Charles P. Partridge, President. Mr. Dorman served on the Advisory Council for Unemployment Insurance under Governor Olsen in 1939 and, during the war, was active in government service as a civilian. It is also announced (Jan. 4) that W. Anthony Newhoff, of San Francisco, Vice-President of Union Oil Co. of California, has been elected a director of the Central Valley Bank, which was organized Sept. 1, as a consolidation of the former First National Bank in Richmond, the Ecalon State Bank and the Bank of Hughson, with the addition of new offices in Oakley and El Cerrito. Application is pending for a sixth office at Tracy. On Dec. 15 it was announced that Donald Stephen Moore has been appointed a member of the executive board of the El Cerrito office.

* * *

Rush D. Purdy, manager of the Alberta Wheat Pool, had been appointed a director of the **Bank of Montreal**, head office Montreal, it was announced on Jan. 3 by B. C. Gardner, President of the bank. Mr. Purdy was Assistant Manager of the bank's Edmonton branch when he was made manager of the Alberta Wheat Pool in 1925. During his term of a quarter of a century as head of the Pool, Mr. Purdy has become an authority on wheat-marketing. He is Chairman of the Alberta Provincial Committee of the Canadian Forestry Association and a member of the executive committee of the Canadian Red Cross Society (Alberta Division). From 1943 to 1948 he served as a director of the War Assets Corporation.

Railroad Securities

Great Northern

Generally speaking, railroad stocks that are considered of investment quality did not distinguish themselves marketwise during 1949. A case in point is Great Northern, which closed the year at 41, down 7/8ths of a point from the close of the preceding year. In the short week beginning the new year it attracted increased investment buying interest and advanced somewhat. Nevertheless, at the end of the week it was still less than a point above the 1948 close and was still selling to yield nearly 9.5% on the basis of what is considered a well protected $4.00 dividend rate. Analysts look upon it as being among the more attractive investments in the list.

Great Northern has come a long way since the middle 1930s when many financial people feared possible impairment of its credit standing because of the impending 1936 maturity of $100 million of high coupon General Mortgage bonds. The problem was successfully handled through sale of a convertible bond and subsequently the entire debt structure has been put on a far sounder basis. For one thing, a total of roundly $100 million of non-equipment debt was retired in the years 1941-1948, inclusive. This reduced the amount outstanding to $215,663,800. This debt is all represented by one blanket mortgage, outstanding in eight series.

Aside from retiring a large amount of debt the company was able to engage in comprehensive refunding operations. There are still three non-callable series outstanding with high coupons but they amount to only $40,663,800 in the aggregate, and the highest coupon series ($12,000,900 of 5½s) matures in 1952. Outside of these three non-callable series the highest coupon rate is 3⅛%, and $100,000,000 of the total carries interest of less than 3%. At the same time, the maturity schedule has been so arranged that it could hardly cause any serious trouble in the future. The various series fall due at roughly ten-year intervals from 1952 to 2010. The heaviest single maturity is $40,000,000 of 2¾s in 1982.

One other highly important result of the debt reduction and refunding program has been the sharp reduction in fixed charges. These obligatory requirements are now running at the rate of approximately $7,600,000 annually. At their peak in 1934 fixed charges amounted to roundly $19,600,000. The saving of some $12 million in annual fixed requirements is equivalent to $3.88 a share on the stock outstanding. Allowing for Federal income taxes, it would amount to $2.40 a share. This is particularly impressive when it is considered that even with its old charges the company sustained deficits in only three years of the depression era (1932-1934) and only in 1932 was the loss of any sizable proportions.

Along with other western roads Great Northern was hard hit by severe storms in the early months of the year in 1949. Moreover, maintenance outlays have been kept at relatively high levels. As a result, per share earnings for the 11 months through November declined to $5.32 compared with $7.63 a year earlier. For the full year it is indicated that results probably reached about $6.50. In 1948 share earnings amounted to $8.91 and for the ten years through 1948 the average was $7.39 a share. These results do not include the company's share of the undistributed profits of the strong, jointly controlled Chicago, Burlington & Quincy. That company in the past ten years has paid out an average of only about a third of its earnings in the form of dividends.

Over the long-term Great Northern has displayed a relatively favorable traffic trend. The prospects favor continuation of this trend. Its major traffic items—wheat, iron ore, and lumber—are little vulnerable to the inroads of competitive transportation agencies. Parts of the territory in the Pacific Northwest have been experiencing considerable industrial growth. With large power resources it is expected that this trend will continue. Finally, the company should benefit materially from the opening up of substantial new irrigated farm lands.

Sees Ratio of Savings to Income Declining

George L. Bliss, President of Century Federal Savings Association notes long term savings of people in last three years averaged under 4% of aggregate personal income. Says there is danger present savings ratio may decline.

The American public is enjoying a gigantic spending spree unequaled in history, and executives of savings institutions will have to find ways to glamorize savings if they expect the people in 1950 to continue adding a meager 4% of each dollar earned to their long-term savings, George L. Bliss, President of the Century Federal Savings Association of New York City, declared in a review of the savings trend since the end of the war.

George L. Bliss

During the four war years, he pointed out, the proportion of earnings that the people placed in their long-term savings funds averaged 10.35%. Since the war, he said, the ratio of savings to earnings has leveled off into a definite pattern.

"Now we find," he continued, "that although the personal income of the American people is even much greater than it was during the war years, net additions to long-term savings in 1947, 1948 and 1949 have averaged only about 3.97% of personal income. This is exactly the same ratio that prevailed in the prewar years, 1934 to 1941."

Mr. Bliss pointed out that the personal income of the American people amounted to approximately $212,000,000,000 in 1949, according to estimates of the United States Department of Commerce. Out of these huge earnings, Mr. Bliss estimated that only about $8,500,000,000 was placed in long-term savings funds by the people, or 4 cents per dollar earned.

This was a slight increase in ratio over 1948, he said, when the total personal income was $211,900,000,000 and the amount added to long-term savings was $7,202,000,000, or 3.4%. It was slightly less than the ratio in 1947, he added, when total personal income was $193,508,000,000, while additions to long-term savings amounted to $8,539,000,000, or 4.4%.

"Unfortunately," he continued, "the people seem to have forgotten the lessons for saving which they learned during the war years, and now their ratio of savings to earnings is no greater than it was in the prewar years when earnings averaged about $70,000,000,000 annually.

"The perplexing question facing savings executives is whether even the present ratio can be maintained. Sales managers in industry and business, recognizing that the day of the order taker has passed, have increased their sales efforts, and 1950 will probably see merchandisers conducting the most intensive campaign in all history to induce the people to spend their earnings. If saving can be made as glamorous as spending, then perhaps the spending trend can be reversed."

Mr. Bliss, in his figures on long-term savings, listed savings accounts in savings associations, savings and commercial banks, Government savings bonds, postal savings and the cash value of life insurance policies.

Continued from page 11

Truman Forecasts $5 Billion Budget Deficit

contribute to an expanding economy. The large and badly devised tax reduction of 1948 sharply limits the extent to which we can make changes at the present time. Nevertheless, we can and should make now some of the changes which are needed in our tax laws, and bring nearer the time when the budget can be balanced. Because of the time lag in tax collections after changes in the law, and the fact that some of the changes will result in an immediate loss in revenue, the tax recommendations which I shall submit to the Congress will produce less additional revenue in 1951 than in subsequent years, when the changes will be fully effective.

For all these reasons, the financial program which I am recommending represents a sound, long-range basis on which to plan our governmental operations at this time. It is directed at achieving a budgetary balance in the only way in which it can be achieved — by measures which support rather than impair the continued growth of our country. It is based on expenditure plans which can be sustained in the years following 1951 without embarrassment to our fiscal position. Its accomplishment does, however, depend upon our continued self-control in holding expenditure programs to no more than necessary levels.

As in all recent years, the Budget for 1951 is dominated by financial requirements to pay the cost of past wars and to achieve a peaceful world. Estimated expenditures for these purposes are $30 billion, or about 71% of the total Budget. This is a reduction of $1.8 billion from estimated expenditures for the same purposes in 1950. National defense and international programs, designed to insure our security and to create the economic and political conditions necessary for world peace, will require $18 billion. Veterans' program and interest on the public debt commitments arising mainly from the last war, will require about $12 billion.

Our unprecedentally large expenditures in recent years for international programs have been undertaken to assist free peoples to recover from the devastation of the war and to restore their capacity for future growth both in material things and in the practice of democratic principles. These programs are proving to be an investment paying dividends, far beyond their cost, in enhancing our own security and in providing a basis for world peace and prosperity. The job is not yet done, the goals are not yet reached; but the progress so far achieved makes possible in 1951 a substantial reduction in the dollar costs of these programs. Total expenditures for international affairs and finance are estimated at $4.7 billion, a reduction of $1.3 billion from 1950. This amount reflects the minimum requirements for these programs, and their success to date emphasizes the compelling need to carry them through on the planned basis.

As progress is made toward achieving the short-range objectives of recovery and relief, two other international activities assume increasing importance. First I am renewing the recommendation for a program of technical and capital assistance to underdeveloped countries. The Budget expenditures in 1951 will be relatively small but they represent a step of great significance in the encouragement of world economic expansion and the growth of world trade, which are essential to our national prosperity. Second, I am recommending additional funds in 1951 for the mutual defense assistance program, authorized by the Congress last year, and now getting under way. This program is a necessary supplement to economic growth as a bulwark against aggression, and is an integral part of the cooperative effort to assure the continued independence of free nations.

Expenditures for national defense must be sufficient to provide us with the balanced military strength we must maintain in the present world situation, at a level which can be sustained over a period of years. In 1951, expenditures for national defense are estimated at $13.5 billion, an increase of about $400 million over 1950. The present level of expenditures is substantially less than was anticipated a year ago, and is the result of careful Budget planning and vigorous administrative action.

Expenditures for veterans' services and benefits are estimated at $6.1 billion dollars in 1951, a decline of $825 million from 1950. Our veterans' programs represent commitments which the government has made to those who have served in its armed forces, and these commitments must be met. While that part which represents pensions, medical care, and similar services will continue to rise gradually, the program of readjustment benefits was intended to be transitional, and we should plan on a continued reduction in its cost during the next few years.

Interest on the public debt is estimated at $5.6 billion in 1951, slightly lower than in 1950. This is, of course, a fixed commitment of the government, and represents predominantly the cost of financing the last war.

All expenditures, other than those for international, national defense, and veterans' programs, and interest on the debt, total $12.5 billion, about 29% of the total Budget. This is an increase of about $1 billion from estimated expenditures for these purposes in 1950. They include many important activities such as the Atomic Energy Commission and the Maritime Commission, which are closely related to our national security. Furthermore, they represent those positive functions which Government must fulfill if we are to have a healthy and growing economy. Federal expenditures for these purposes in 1951 are expected to constitute a substantially lower percentage of the total national income than the corresponding percentage in 1939.

The $12.5 billion which this Budget provides for these domestic programs, viewed item by item, reflects—and has been generally recognized by the Congress to reflect—the necessary contributions of the Federal Government in our modern economy. The major question in my mind is not whether we are doing too much, but whether the budgetary requirements of the major national security and war-connected programs have constrained us to undertake too little toward supporting and stimulating the realization of our country's great potential development. It must be recognized that failure to support essential Federal activities would impede the continued expansion upon which the well-being of our economy and the soundness of the Government's fiscal position alike depend.

Expenditures in this Budget designed to assist economic development in the categories of housing and community development, agriculture, natural resources, transportation and communication, finance, commerce, and industry, and labor, together amount to $7.9 billion, 19% of total estimated expenditures.

We must push ahead, for example, with atomic energy development, and the Budget provides $817 million for this purpose. We must maintain and develop adequate aviation facilities and services, for which $230 million is included. The Federal Government should continue to assist states in developing an adequate national highway system; Federal expenditures for this purpose are estimated at $507 million in 1951. The development of our rivers for flood control, navigation, reclamation, power, and other uses is of fundamental importance for economic growth, and is largely a Federal responsibility, for which this Budget includes $1.4 billion. The Government is substantially aiding private industry and local communities in producing more and better housing at prices people can afford; $1.3 billion is included for these purposes. Over $800 million is provided to further the conservation of farm lands and to make loans for extending electricity to farms.

There is one aspect of these expenditures which has properly received widespread attention by the Congress and the public as having an important bearing on the long-run fiscal position of the Government. Many expenditures represent the acquisition of assets which are recoverable or will give continuing returns in future years, and which in normal business accounting would not usually be considered as current expense. It is estimated that in the 1951 Budget such expenditures, excluding military public works and equipment, amount to about $5.6 billion, of which about $4 billion is anticipated to be in the recovery category. In the case of the Federal Government, in contrast to private business, these investment expenditures cannot properly be financed differently from other items in the Budget. But their size and nature are important in evaluating the strength of our fiscal position. A special analysis of the nature and extent of investment expenditures is included in part III of the Budget this year for the first time.

Economic growth must be matched by comparable development in the social well-being and living standards of all our people. Continued progress depends in large part upon the increasing fulfillment of the responsibilities of Government in such fields as social welfare, education, and public health. In addition to the transfer of $594 million of pay-roll taxes to the railroad retirement trust fund, the Budget proposes total funds of $2.1 billion for social welfare, health, and security, and $434 million for education and general research, about one-sixteenth of total Federal expenditures. These, too, are investments in the future of our country. Over 80% of these funds is for grants to States and localities.

The remaining programs, classified under general government, are estimated to cost $1.3 billion. These funds provide for over-all legislative, judicial, and executive operations of the government, and for various central services such as the maintenance of public buildings. Included in this total are $424 million for tax collection and other financial operations, and $333 million for the government's payment to the civil service retirement fund.

The detailed activities of government agencies in all fields have been closely reviewed to eliminate all but the minimum operations required. This has made necessary the denial of request after request for additional funds which—taken by themselves and in the judgment of particular groups affected—are highly meritorious. The progress made in this Budget in reversing the trend toward higher expenditures and in achieving a substantial reduction has been made possible only by the most vigorous application, in every area, of a policy of holding the numerous activities to essential levels.

In a very few cases — mainly middle-income housing — the exigencies of particular situations justify the recommendation of limited new domestic programs. In addition, I am renewing proposals previously made for aid to education and expanded public assistance, primarily in the form of grants to States, and for the enactment of certain social insurance legislation which would be financed primarily by special taxes. Beyond this, however, I am recommending no new programs which would require large expenditures in future years, above the amounts included in this Budget. In the case of existing programs, while vigorous effort is being devoted to improving their efficiency, they must in the public interest be given sufficient funds to allow affective operation.

The rise from $2.5 billion in 1950 to $3.1 billion in 1951 in estimated civil public works expenditures, including grants and loans, reflects almost entirely the minimum requirements of projects and programs now under way. With respect to Federal public works in such fields as reclamation, flood control, and rivers and harbors, this Budget does not provide for starting any new projects, despite the pressures that exist for initiating construction of a large number of additional projects which are already authorized. Federal grants to States for public works have also been generally limited to the necessary costs required to carry forward continuing construction programs, primarily those for highways, airports, and hospitals.

Our policies with respect to expenditures must of course remain flexible to meet shifts in international or economic conditions. The policies I have outlined represent the sound and necessary basis for Budget programs in the light of the outlook at this time.

Management Improvement Program

The past year has been one of outstanding achievement in improving the organization and operating methods of the executive branch. This is an important fact to note in the Budget Message as the accomplishment of better management in government is essential to the fulfillment of our established fiscal goals. It is also a responsibility to which every official must give increased attention of the public is to receive a full return on its tax dollar. Action has been taken on many fronts. To cite but a few: the Department of State has been reorganized; improved operating methods have been installed in the Treasury Department; further progress toward unification has been made with the creation of a Department of Defense; central service functions of the government have been reorganized in the General Services Administration; significant reorganizations have occurred in the Post Office Department, the Department of Commerce, and the Civil Service Commission.

In cooperation with the Congress, I intend to continue a vigorous program to achieve further improvements in governmental management.

One phase of this program requires the enactment of legislation and the approval of reorganization plans. During the coming year I recommend that the Congress enact basic personnel legislation to make possible further improvements in the way the government recruits, trains, and supervises its employees. I also recommend that the Congress take action to allow the Post Office to maintain its own accounts and conduct its financial affairs on a businesslike basis and to permit appointment of postmasters by the Postmaster General.

During the session I shall transmit to the Congress a number of reorganization plans. The objective of these plans will be the establishment of clear lines of responsibility and authority for the management of government activities and the more effective grouping of government programs within departments and agencies.

A second phase of the management improvement program includes government-wide activities in which all agencies participate. Major undertakings in this area are the installation of more efficient property and records management practices under the leadership of the General Service Administration; strengthening of personnel management activities under the leadership of the Civil Service Commission; and institution, under the sponsorship of the Bureau of the Budget, of systematic review by all agencies of operating effectiveness and economy as required by the Classification Act of 1949. In addition, more modern accounting practices are being installed throughout the government under the guidance of a joint committee consisting of the Secretary of the Treasury, the Comptroller General, and the Director of the Budget.

In the field of programing and budgeting, the progress made toward presentation of this 1951 Budget on a "performance" basis is an example of results stemming from the improvement program. An examination of the body of this document will indicate a substantial change from that of previous years. The activities for which funds are recommended are described so that the Congress and the citizens may see more clearly the relationship between the activities to be performed and the cost of these activities. Future Budget documents will include additional improvements. Some of these will reflect current efforts both to strengthen and simplify government accounting and to develop better measures of work performance. Others will provide additional kinds of analyses to enable examination, and understanding of the Budget from different standpoints.

The third aspect of the management improvement program is the work being done by individual departments and agencies. I have instructed each department and agency head to inaugurate an aggressive program of management improvement in his department. These departmental programs have been reviewed in terms of their relation to financial requirements and their contribution to the solution of known problems. I will announce shortly certain areas to which priority will be given in the management improvement work of the executive branch during the year 1950. The special fund for management improvement which was authorized by the Congress last year will be utilized to carry out some of the specific projects. In following through to secure results from this entire program I will have the assistance and advice of my Advisory Committee on Management Improvement.

Under our Federal form of government, many public services are the common concern of Federal, State, and local government. Continuing attention needs to be given by all levels of government to the problems arising from the interrelations of our tax systems and the administration of common governmental functions. Federal and State and local officials are currently studying the possibilities of further cooperative arrangements in tax administration in order to reduce costs and improve coordination. We are also cooperating in developing legislative proposals to deal with several current problems of mutual

concern: provision of certain local services to Federal personnel application of local taxes to personnel and transactions on Federal reservations, and the establishment of a general system of payments to State and local governments whose property-tax base has been reduced by Federal acquisitions of real estate.

The reports of the Commission on Organization of the Executive Branch of the Government have provided the framework for much of the improved organization and management which has been achieved and which I hope to achieve during the coming year. While work has been started in a number of the areas containing the greatest potential for economy and improved operations, many further legislative and administrative actions are needed. It should be realized that the greater effectiveness and economy and better service to the public, which come from improved management, are the cumulative result of a great many individual actions. Realization of those goals requires the coordinated and unrelenting efforts of all Federal officials and employees. We must continue to emphasize the achievement of better management as an important part of the job of public service in which the Congress and the executive branch are engaged.

Budget Receipts

Budget receipts in the fiscal year 1951 are estimated at $37.3 billion under existing tax legislation, $457 million below the estimate of the current year. Decreased collections from corporation income taxes account for the principal decline in receipts between the two years, reflecting the fact that the reduction in corporate profits from the calendar year 1948 peak does not have its full effect on tax receipts until the fiscal year 1951. The estimates of receipts assume economic activity at approximately the same level as at the present time.

I will shortly transmit to the Congress my recommendations for changes in our tax laws to provide a more balanced and equitable tax structure and to increase Federal revenues. The net increase in revenues during 1951 will be substantially smaller than in subsequent years, owing to the time required for some of the changes to become fully effective.

Direct taxes on individuals—Receipts from the income tax on individuals exceed those from any other tax. The total of $18.9 billion estimated for 1951 for direct taxes on individuals is practically unchanged from the 1950 total, and reflects continued high levels of employment and income.

Direct taxes on corporations—The fiscal year 1951 estimate of receipts from taxes on corporations is $10.5 billion. During the fiscal year 1951 corporations will pay income tax on the profits earned during the calendar years 1949 and 1950. The decline in profits from the peak level of 1948 will therefore adversely affect these receipts for the fiscal year 1951.

Excises and customs — Under present laws very little change is anticipated in collections of excise taxes and customs.

Employment taxes — The tax rate for old-age and survivors insurance was increased from 1 to 1½% on the first of this month; hence the receipts estimate for 1950 includes taxes based upon both the old rate and the new. Receipts for 1951 under existing legislation represent a full year's collection at the new higher rate.

I have recommended expansion and improvement of the old-age and survivors insurance system and a new program of medical care insurance. It is estimated that the additional taxes to be collected for these programs will amount to $1.4 billion in 1951. Since these sums will be transferred immediately to trust accounts, Budget receipts will not be increased.

Miscellaneous receipts—Miscellaneous receipts have been declining steadily since 1947, primarily because of the drop in sales of surplus property originally acquired for war purposes. During 1951 receipts from surplus property will be only about $0.1 billion compared to the peak of $2.9 billion in 1947.

There are other decreases in the estimates of miscellaneous receipts which are in the nature of changes in reporting. Certain receipts, notably of the Farmers' Home Administration and of the public housing program, were formerly deposited into miscellaneous receipts, but are now deducted from the expenditures of the programs involved. These changes, of course, have no effect on the surplus or deficit.

The estimate of miscellaneous receipts for 1951 reflects my recommendation that legislation be enacted to permit the acceleration of capital repayment by the Federal home loan banks. An increase in patent fees is also necessary to make the Patent Office more nearly self-supporting.

Refunds of receipts—Refunds for 1951 are estimated at about the same level as for the current year, $0.7 billion less than in 1949. The decline is the result of the fact that 1949 refunds were unusually high because of the retroactive features of the Revenue Act of 1948.

Public Debt

The public debt amounted to $252.8 billion on June 30, 1949. Estimated Budget deficits of $5.5 billion in the fiscal year 1950 and $5.1 billion in the fiscal year 1951, together with certain minor adjustments, will cause the debt to increase to $263.8 billion by the end of 1951. In 1951, about $2.5 billion of the increase in the debt will be financed by new investments in Federal securities by trust accounts and other Government agencies.

Budget Expenditures and Authorizations

A summary of Budget expenditures according to the broad programs or functions for which the money is spent is set forth in the table below. This table includes all expenditures from the general and special funds of the Treasury and the net expenditures of wholly-owned Government corporations. Expenditures from the trust funds are excluded.

All expenditures flow from obligational authority enacted by the Congress. The net new appropriations and other authorizations recommended for the fiscal year 1951 total $40.5 billion. Of this total, $33.1 billion is now formerly recommended for action by the Congress, while $7.4 billion is tentatively estimated for later submission. In addition, this Budget includes appropriations of $4.5 billion to liquidate obligations incurred under prior year contract authorizations, more than half in programs for the national defense.

Since contracts with industry must be let well ahead of deliveries, a considerable lead time is required for the economical operation of many government programs. This is especially true for public works and military procurement. Financial obligations incurred in prior years, therefore, will have already fixed a substantial part of the estimated Budget expenditures for 1951. Of the total Budget expenditures of $42.4 billion estimated for 1951, about $12.1 billion, 29%, will be payments for obligations incurred in 1950 or in earlier years; the remainder will be for 1951 obligations.

Net new appropriations recommended for 1951 are $1.6 billion less than those estimated for 1950. They represent total appropriations (including permanent appropriations) less those to be used to liquidate prior years contract authorizations. New contract authorizations (which will require later appropriations to liquidate) totaling $3.4 billion are also included in this Budget, also about $1.6 billion less than the estimated new contract authority for 1950. Special authorizations to use the proceeds of Treasury borrowing in the financing of certain Government programs are included in the 1951 recommendations to the amount of $1.4 billion. This represents a decline of $6 billion from the 1950 estimate for this type of authorization. The estimate for 1950, however, anticipates action by the Congress in providing supplemental public debt authorizations of $2 billion for the Commodity Credit Corporation, one-half billion dollars for the Reconstruction Finance Corporation, and stand-by borrowing authority of $1.7 billion for the Federal Savings and Loan Insurance Corporation and the Federal home loan banks.

BUDGET RECEIPTS

(Fiscal years. In millions)

Source—	1949 Actual	1950 Estimated	1951 Estimated
Direct taxes on individuals:			
Individual income taxes	$17,929	$17,971	$18,246
Estate and gift taxes	797	697	692
Direct taxes on corporations:			
Corporation income taxes	11,343	11,075	10,458
Excess profits taxes	211	100	60
Excises	7,551	7,631	7,642
Employment taxes:			
Existing legislation:			
Federal Insurance Contributions Act	1,690	2,245	2,515
Federal Unemployment Tax Act	223	223	224
Railroad Retirement Tax Act	564	570	5?4
Railroad Unemployment Insurance Act	10	10	10
Proposed legislation:			
Medical care insurance	---	---	250
Improvement of old-age and survivors insurance	---	---	1,200
Customs	384	375	375
Miscellaneous receipts:			
Existing legislation	2,072	1,288	1,096
Proposed legislation	---	---	60
Deduct:			
Appropriation to trust funds:			
Existing legislation	—1,690	—2,245	—2,515
Proposed legislation:			
Medical care insurance	---	---	—250
Improvement of old-age and survivors insurance	---	---	—1,200
Refunds of receipts	—2,838	—2,177	—2,151
Budget receipts	$38,246	$37,763	$37,306

NOTE—Estimated receipts for 1951 exclude new tax proposals, except for recommended changes in employment taxes and miscellaneous receipts.

BUDGET EXPENDITURES AND AUTHORIZATIONS BY MAJOR FUNCTION

(Fiscal years. In millions)

	Expenditures			New Obligational Authority for 1951	
Function—	1949 Actual	1950 —Estimated—	1951	Appropriations	Other
International affairs and finance	$6,462	$5,964	$4,711	$4,505	$530
National defense	11,914	13,148	13,545	*11,359	*1,441
Veteran's services and benefits	6,669	6,905	6,080	5,847	---
Social welfare, health, and security	1,907	2,297	2,714	2,625	165
Housing and community development	282	1,006	1,329	117	704
Education and general research	70	125	434	455	7
Agriculture and agricultural resources	2,512	2,671	2,206	875	580
Natural resources	1,512	1,845	2,218	1,594	370
Transportation and communication	1,622	1,894	1,682	973	673
Finance, commerce, and industry	120	225	212	60	250
Labor	193	219	243	266	---
General government	1,170	1,223	1,267	1,231	3
Interest on the public debt	5,352	5,725	5,625	5,625	---
Reserve for contingencies	---	50	175	200	---
Adjustment to daily Treasury statement	272	---	---	---	---
Total	$40,037	$43,297	$42,439	†$35,731	$4,723

*In addition, 851 million dollars of reserved 1950 contract authorizations and 22 million dollars of 1950 appropriations will be available for 1951 programs.

†This Budget also includes 4,514 million dollars of appropriations to liquidate prior year contract authorizations.

Calls for End of FDIC Assessments

Guaranty Trust Company of New York executives hold billion dollar reserve of Federal Deposit Insurance Corporation is ample to cover any emergency, and Treasury would gain $40 million annually from additional taxes on banks, if assessments were dropped.

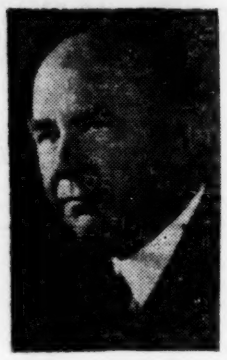
The 1949 annual report to stockholders of the Guaranty Trust Co. of New York, signed by J. Luther Cleveland, Chairman of the Board, and William L. Kleitz, President, urges the discontinuance of assessments on banks by the Federal Deposit Insurance Corp.

According to the report, the Guaranty Trust Co.'s Federal Deposit Insurance assessment for 1949 was $1,746,000, and assessments since 1933 have aggregated $24,008,000. Noting the dependence of banks generally on the retention of earnings as the source of needed capital funds if capital accounts are to be maintained in reasonable proportion to increased profits, the report points out that FDIC assessments in recent years amounted to about 8% of the net operating income of insured banks. "On the basis of deposit losses by the public during the past 84 years and the loss experience of the Federal Deposit Insurance Corp. since its organization," the report states, "it appears that capital funds of one billion dollars are fully adequate to meet any conceivable emergency. In the three-year period 1931-33, which witnessed the greatest banking crisis in the country's history, losses to depositors in commercial banks which closed because of financial difficulties totaled about one billion dollars. In the highly improbable event of another banking crisis of similar magnitude, Federal Deposit Insurance Corp. assets seem sufficient to meet it with only sparing and temporary use, if any, of the power to borrow up to three billion dollars from the United States Treasury. From the government's point of view, since assessments are deductible for tax purposes, the discontinuance of assessments would, on the basis of the 1948 figures, benefit the Treasury by approximately $40 million annually at a time when its budget is seriously out of balance.

"The company believes, as do a large number of other member banks," the report adds, "that continuance of the assessments at the present time is not in the best interests of the banks or the public and that anything more than a token assessment should not be required when the fund is in excess of one billion dollars."

The report of Guaranty Trust Co. for the year 1949 shows net operating earnings of $17,437,532.09 as compared with $17,976,883.80 for 1948. Including security profits, recoveries, and released reserves (net), and after deducting $2,000,000 allocated to reserves for bad debts, net profits were $17,678,149.28 in 1949, equivalent to $17.68 per share of capital stock, as compared with $18,223,667.68 and $18.22 per share in 1948.

N. Y. Bankers Score Deficit Financing


N. Baxter Jackson


S. Sloan Colt


James G. Blaine

Executives of Chemical Bank & Trust Company, Bankers Trust Company and Marine Midland Trust Company of New York tell shareholders vigorous steps should be taken to balance Federal budget or further inflation looms ahead.

Executives of New York's leading banking institutions took occasion in their annual reports to shareholders to attack current heavy Federal spending and the "cheap money" policy of the Administration. N. Baxter Jackson, Harold H. Helm, Chairman and President, respectively, of the Chemical Bank and Trust Co. told stockholders:

"Once more government stands at the crossroads. It must either take vigorous steps to live within a reasonable income or else it will accelerate another wave of inflation. Business will be encouraged and stabilized by a balanced budget, a determination to reduce taxes rather than to increase them, and by steps that will not lead to further dangers of inflation. Contrary governmental policies will create lack of confidence and business timidity. We are confident that any further increase in taxes will invoke the law of diminishing returns."

S. Sloan Colt, President of the Bankers Trust Co., in his report to stockholders, warned that "government spending, government deficits, relatively high taxes, and easy money, all in a period of prosperity, now threaten the very freedom which you hold so dear." He added further:

"If our people do not make it plain to their government that deficits in these prosperous years must be avoided, I have a serious doubt as to whether we shall ever again see a balanced budget. It is obvious that the budget is out of control."

In his Annual Report to shareholders, James G. Blaine, President of the Marine Midland Trust Co. of New York, also states "that while business should be good in 1950, deficit spending must cease. Its continuation can only lead to much worse inflation and ultimate misery for our people. As the world's greatest nation of property owners, Communism is not now a threat to our institutions. But it can be if governmental fiscal policies create public distrust in the value of the dollar. Then the time would be ripe to fertilize the seeds of discontent, and that is what Communism wishfully waits for."

Impact of Savings Bonds Redemption Belittled

P. M. Light, Director of U. S. Savings Bond Devision for New York State, in interview with the "Chronicle," states redemptions now running at less than year ago, are contradicting predictions made at end of war. Also denies bond program has been at expense of other forms of savings.

In view of evidences of increased public misgiving over various phases of the Government's Savings Bond program, the "Chronicle" put some of the qualms before Philip M. Light, State Director, U. S. Savings Bond Division for New York.


Philip M. Light

"I realize there's been a lot of talk again now about increased redemptions of Savings Bonds. I'll tell you the real story," said Mr. Light.

"For the month of November, national sales of all series of Savings Bonds ran behind maturities and redemptions of all series. However, despite this fact, the redemptions of the all-important E Bond have been consistently lower than last year. It is important to realize that the national deficit of sales against redemptions and maturities in recent months has been caused for the most part by a rise in maturities. To illustrate, in November, it is calculated that exclusive of maturities, New York sales of E Bonds were approximately $5 million greater than E redemptions. For the 11 months of 1949, sales of E Bonds in New York are $37 million greater than redemptions and maturities combined (Series A-E) and more than $100 million above E redemptions alone. Redemptions of E Bonds before maturity both nationally and in New York State have been consistently below comparable periods of 1948."

Other Forms of Savings Helped

Mr. Light vigorously denies the frequently-voiced allegation that the Savings Bonds sales effort has been at the expense of other forms of savings.

"All of our efforts tend to encourage the thrift habit in any practical form," he said. "This is borne out by the fact that from 1945 to the present, during which time individuals increased their holdings of Savings Bonds by 13%, individuals also increased their shareholdings in savings and loan associations by over 60%, their life insurance by 30%, their deposits in mutual savings banks by 25%, their savings accounts in commercial banks by 15%, checking accounts by 10%, and postal savings accounts by 10%. Of the various forms of liquid savings, only currency holdings in the hands of individuals declined."

"In his annual statement appraising business conditions, Thomas J. Watson, IBM Chairman of the Board, mentioned Savings Bonds holdings as one of the factors that should contribute to satisfactory business in 1950," Mr. Light continued.

"The significance of the $48½ billion of assets in the form of Savings Bonds holdings by individuals is underscored by the fact that at the low point of the depression in 1933, the country's income was $39½ billion. In other words, the cushion of reserves represented by present Savings Bonds holdings by individuals, is greater than the total national income for that year."

Business Man's Bookshelf

Fire Insurance Values and Appraisals — Ford, Bacon & Davis, Inc., 39 Broadway, New York 6, N. Y.—Paper.

Insurance in Connection With Lending—Background and analysis, with summaries of court decisions of all states, including insurance laws and regulations and treatment of automobile financing—Conference on Consumer Insurance Law, 84 William Street, New York 7, N. Y.—Copies on request to Conference.

Insurance Coverage Under Small Loans Laws—Symposium of all states, including pertinent summaries of court opinions; survey of related fields and regulations—Michael J. Watman—Conference on Consumer Insurance Law, 84 William Street, New York 7, N. Y.—Copies on request of Conference.

International Commodity Stock Piling as an Economic Stabilizer—M. K. Bennet and Associates — Food Research Institute, Stanford University Press, Stanford, Calif.—Cloth—$3.00.

Monetary Management — The Regulation of Credit—E. Sherman Adams—The Ronald Press Co., 15 East 26th Street, New York 10, N. Y.—Cloth—$2.50.

Twentieth Century Money—Roger Amory — Rockland—Atlas National Bank of Boston, 30 Congress, Boston 6, Mass. — Copies available on request to the Bank.

Monmouth Chapter AIB Studies Investments

The Monmouth Chapter of the American Institute of Banking (Monmouth County, N. J.) is offering courses Monday and Tuesday nights at Freehold High School. The subjects under study, and the instructors are as follows:

Commercial Law — Robert V. Carton, Asbury Park; Fundamentals of Banking—James Van Pelt, Second National Bank & Trust Co., Red Bank, N. J.; Negotiable Instruments—Robert R. Witt, Asbury Park; Investments — Fred Mason, Ira Haupt & Co., New York City; and Speech — William Fluhr, oil company executive.

J. M. Colburn & Co.

WELLESLEY HILLS, MASS.—J. Maxwell Colburn has opened offices at 42 Seaward Road under the firm name of J. M. Colburn & Co. to conduct a securities business. He has recently been with Lord, Abbett & Co. In the past he conducted his own investment business in Boston.

Nierman Opens

(Special to The Financial Chronicle)

CHICAGO, ILL.—Max Nierman is engaging in a securities business from offices at 141 West Jackson Boulevard.

Continued from page 9

Capitalism and Innovation

research. Certainly we are warranted in listing it as one of the conditions of a dynamic capitalism in the modern world. Here again, let me point the moral of British experience, as summarized by the "Economist":

"Spread over the whole range of British industry, the volume of genuine scientific research is very thin. Moreover, apart from fundamental research, there is a lack of willingness to bide the time, or spend the money, for a proper development stage. Most technical advances are not handed to the industrialist on a plate in a finished state. They need long, difficult, and expensive development at every step of which the scientist and the production man must work side by side. This is what is chiefly lacking in British industry."

No one can contend, I believe, that industrial research has yet expanded even in our own country to the limit of its economic potentialities. We can look for an even greater expansion in the future, and, accordingly, for an even greater contribution to the dynamism of the economic system.

It is not sufficient that the technology of production advance in the laboratories or in design and development departments; it must be incorporated in the installed facilities of industry before it can contribute to increased output. This brings me to a closely related subject, the need for a prompt application of new developments. Naturally, there is a lag between the installed capacity of industry and the best technology currently available. It is vital for progress, however that this lag be held to the lowest limits economically justified. If you will permit me to refer again to Great Britain, I should like to quote an earlier statement of mine on that country:

"So far as we may judge from the territory surveyed by working parties and other investigators, it is safe to say, with only slight risk of exaggeration, that Britain knew how to build great industries but never learned how to rebuild them. At their inception, they were the last word in modernity and efficiency, a model to the world. But they became decrepit with age. What happened was a failure of re-equipment policy.

"The contrast between original equipment policy and re-equipment policy, so conspicuous in Britain, is by no means wholly lacking in the United States. It is, indeed, fairly common to find long-established enterprises using facilities they would not dream of buying, even for a song, if they were going into business in the first place. In that event, they would probably purchase new equipment all around. If their present policy is correct, however, they should equip a new business by scavenging the mechanical graveyards for the cadavers they now employ."

Tardiness in Applying Productive Technology

It is my conviction that one of the principal reasons for tardiness in the application of new productive technology is the lack of any rational procedure or technique for analyzing the replaceability of equipment. For the prevailing methods of analysis are not only quite unscientific; they are in my opinion predominantly weighted in favor of retarded replacement. If this is correct, it is certainly a challenge to the proponents of good capitalism. For if management lacks the means to identify within reasonable limits the proper timing of re-equipment decisions in individual cases, it necessarily lacks the means to maintain the most advantageous mechanization of its facilities as a whole. It fails, accordingly, to realize the full possibilities of technological progress.

I come now to a final desideratum, an adequate supply of risk capital. Modern technological progress is an enormous consumer of capital, hence requires an enormous capacity of society to accumulate it, that is, to save. Almost the entire world is suffering today from a capital scarcity, and is looking to this country to make up the deficiency. Whether we ourselves are short of loan capital may be questionable, but I think it apparent that we are short of venture capital. It is venture capital, we must remember, that is the activating and vitalizing factor without which loan capital is impotent.

Excessive Taxation

The great hazard to the accumulation of venture capital and its commitment to risky investment is the excessive taxation of business enterprises and of the larger personal incomes, where the bulk of venture capital is generated. If we wish to avoid the slow degeneration that has overtaken the capitalism of Great Britain, it behooves us to exercise restraint in the taxation of enterprise and risk-taking. For a substantial reduction in the tempo of innovation and improvement is too high a price to pay for the revenue obtained.

Let me summarize this rambling discourse by saying that if modern industrial capitalism is to realize its full potentialities it must first of all be vigorously and pervasively competitive, with all that that implies both for opportunity and for incentives. It must not be debilitated by excessive taxation of risk and enterprise, or by undue regulation. It must have have a high level of education, with an intensive development of scientific and technical research. Finally, it must achieve a timely application of the available technology to production. I have no hesitation in saying that a capitalism which meets these specifications provides the most innovative and dynamic system of production available to mankind.

Wm. Loss Joins Booz, Allen Firm

William Loss, formerly Vice-President and General Manager of Cinecolor Corporation, has joined Booz, Allen and Hamilton, in their New York office, as Manager of business and product development, John L. Burns, partner in the management consulting firm, announced today.


William Loss

Mr. Loss will handle capital reorganizations and private financing for Booz, Allen and Hamilton's eastern region.

Active in financial circles for 20 years, Mr. Loss has been director of research for Blair & Co. and H. Hentz & Co., New York investment bankers, and recently directed the reorganization of the Dazey Corporation of St. Louis as Vice-President and General Manager.

Continued from first page

As We See It

His sorties into our history appear to have the purpose primarily of defending or supporting his theses, and his predictions about the present and the future. But the record is worth consulting in some detail.

To begin with we extract certain passages from the State of the Union Message and the Economic Report. They are revealing.

We Must Now

First some passages from the Economic Report:

"Our economy can and must continue to grow.

"An expanding population and an increasingly productive labor force require constantly expanding employment opportunities and steadily rising levels of investments and consumption. Within five years we can achieve an annual output in excess of $300 billion. The gain in national income would be equal to an average of nearly $1,000 for every family in the United States. This would greatly improve standards of living. It would go far toward our goal of the complete elimination of poverty. It would provide employment opportunities for about 64,000,000 workers. . . .

"The benefits of growth and progress must extend to all groups.

"Only in this way can the long-run welfare of any group be preserved. If any part of our economy is depressed, or fails to gain, it can only serve as a drag against the gains of other parts. There is no room for the feeling that one group can prosper only at the expense of another. There is abundant opportunity for all groups to prosper together."

In his State of the Union Message, the President, as forecaster, grows bolder. He begins to look forward to 2000 A. D. in these words:

"At present our total national production is $255 billion a year. Our working population and our output per worker are increasing. If our productive power continues to increase at the same rate as it has increased over the past 50 years, our total national production 50 years from now will be nearly four times as much as it is today. Allowing for the expected growth in population, this would mean that the real income of the average family in the year 2000 A. D. would be about three times what it is today."

But such blessings will be ours only if . . . . As to the next half-decade, the President issues this warning:

"This growth will not come automatically, but requires conscious purpose and hard work.

"Productivity per worker should be increased by at least 2 to 2½% a year. Labor should base its policies on the prospect of a stable and expanding economy. Business men should base their investment policies on confidence in growth, shape their price policies to the needs of larger markets, and proceed with vigor and ingenuity to develop new and better products of all kinds. Farmers should make full use of new technology and make shifts in production toward those commodities most needed in a growing peacetime economy."

"Right Policies"

We can come into our own by the end of the century if and only if we follow the "right policies."

Says the President:

"These are estimates of what we can do in the future, but we can reach those heights only if we follow the right policies. We have learned by bitter experience that progress is not automatic—that wrong policies lead to depression and disaster. We cannot achieve these gains unless we have a stable economy and avoid the catastrophes of boom and bust that have set us back in the past."

Mr. Truman, the prophet should consult Mr. Truman the historian. The forecaster seems to forget that these "estimates of what we can do in the future" are hardly more than projections of what we did in the first half of the century when, he now says, "booms" and "busts" victimized us.

Indeed, at other points, the President grows almost panegyric about the nation's progress during those years when he apparently thinks we did most things wrong. Take this passage:

"In the last 50 years, the income of the average family has increased so greatly that its buying power has doubled. The average hours of work have declined from 60 to 40 a week, while the hourly production of the average worker has tripled. Average wages, allowing for price changes, have increased from about 45 cents an hour to $1.40 an hour.

"We have accomplished what to earlier ages of mankind would have been a miracle—we work shorter hours, we produce more, and we live better.

"Increasing freedom from poverty and drudgery has given a fuller meaning to American life. Our people are better educated; we have more opportunities for travel and recreation and enjoyment of the arts."

There is some evidence that the President supposes that the larger part of these advances were made in quite recent years, but, if he thinks anything of the sort, he is, of course, quite wrong. In the decade 1919-28, national income averaged roughly five times what it averaged 1894-1903. In the decade 1929-38, which includes the deepest of the depression years and a half decade of the New Deal, it was three or four times as great. Since the war, it has been running roughly three times the last full prewar year, 1938; in 1919 and 1920 it was more than twice as great as in 1913.

Why?

Why is it that the President believes that we must turn socialist to move forward in the second half of the century as we did in the first?

There is nothing in the record which furnishes an answer to this question.

The truth is, of course, that unless we cling to the system that was so fruitful in the first half of the century the second will bring "naught but pain and grief for promised joy."

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Considerations Regarding Capital Gains Taxes

downward movement in the price level usually affects different assets in different degree, actually altering the relative economic positions of individuals; and that ordinary incomes are also affected unequally. Hence, it is impossible to isolate illusory capital gains and losses among the many inequities and disruptions of wide movements in the price level. In the event of radical changes in the price level—such as occurred in various European countries during and after the two World Wars — special countermeasures for capital gains and losses are possible, however. These could take the form, in inflation, of raising the cost basis of capital assets by stipulated percentages, as has been done recently in France and Beligum. Existing provisions protect holders of business assets, in part, by permitting them to postpone recognition of capital gains that are reinvested promptly in similar business property; and a like rule could be adopted for houses or even for all nonbusiness assets. In the event of a drastic fall in prices, on the other hand, it might be necessary to deflate capital values by the use of index numbers or to impose restrictions on the deductibility of capital losses. But the only adequate attack upon the evils of radically changing price levels is through the broad instruments of monetary and fiscal policy, not through adjustments in capital gains taxations.

Capital gains and losses caused solely by changes in interest rates are not illusory in the same sense as those arising from changes in the general price level, it is argued. An investor who realizes a profit of $20,000 by selling his bonds after interest rates have fallen, is in a position to command $20,000 more of the world's real goods. Relative to other individuals, he has gained in net worth, even though his interest income may remain unchanged.

Bunched Realization of Capital Gains and Losses

The bunched realization of capital gains and losses has always been a major consideration advanced in favor of giving them special treatment. Under the graduated rate schedule of the income tax, the imposition of the standard income tax rates upon capital gains realized in a single year, but emerging over a longer period, is held to be inequitable because it usually subjects the gain to a higher effective tax rate than would be applicable if the gain had been allocated among the years during which it arose. In the same way, long emerging capital losses, if concentrated in taxable income in the year of realization, are given smaller tax-reducing value.

In answer to this consideration, it is argued that the sporadic and lumpy character of capital gains and losses is true also, in varying degree, of other kinds of income, notably business profits. Moreover, higher rather than lower taxes on long emerging capital gains are sometimes proposed as an interest charge: the taxpayer has enjoyed the free use of funds otherwise payable in taxes during the period he has postponed realizing his gain. The logical method of achieving equitable tax treatment of fluctuating incomes under a graduated rate schedule is not to exclude them, but to adopt some system of averaging.

Practical Effects

Overshadowing the foregoing economic and equitable considerations in statements before Congressional committees and elsewhere, has been the emphasis upon various undesirable practical consequences said to flow from treating capital gains and losses as ordinary components of taxable income. A taxpayer cannot usually avoid taxes on ordinary income except by foregoing the income itself. But he can avoid the tax on a possible capital gain by refraining from realizing it, yet nevertheless enjoy many of the advantages of the gain in the form of an increase in his wealth, and the increased earning power, dividends, interest, or rent the unrealized gain usually reflects.

Since the investor commonly possesses a wide and often unlimited range of choice as to whether and when to realize his gains in a legal sense, any substantial tax on them acts as a serious deterrent to sales of property involving capital gains. The effect is to impose a heavy tax on transfers of such capital assets. In consequence, it is argued that society does not get the benefit of highly fluid markets for capital assets, and of the easy and continuous redistribution of them among those most anxious to own and use them. Individuals are deterred from making otherwise desirable shifts in the composition of their assets as their needs change. Another conspicuous contention is that price movements in both directions are exaggerated in the markets for common stocks and other equities by the reluctance of owners to sell when prices are rising in the face of an avoidable tax on their gains, and their added disposition to sell when prices are declining in order to benefit from a deductible capital loss. The accentuated fluctuations reduce the attractiveness of equity investments. Further, since venturesome investment depends in considerable degree upon the prospect of exceptional returns, which are often possible only in the form of capital gains, heavy taxes on the latter are held to deter the assumption of unusual risks.

It is argued, moreover, that the net revenues from any substantial taxation of capital gains and reasonably related allowances for capital losses are negligible over a long period because of the tendency for gains and losses to cancel out and because the realization of losses is encouraged while that of gains is discouraged. Hence it is said that excluding capital gains and losses would improve the stability of the yield from the personal income tax without seriously reducing its average amount. Under existing treatment the freedom of taxpayers to choose whether and when to realize gains and losses enables them to time their transactions so as to minimize their tax liabilities. Well-advised taxpayers are fairly certain to avail themselves of the tax benefits from realizing their losses when they have offsetting income, and to minimize taxes on their gains by realizing them mainly when they have offsetting losses or by not taking them at all, leaving them to pass untaxed (as far as the income, but not the estate, tax is concerned) to their heirs. A low flat rate on capital gains without allowance for capital losses has been urged as a means of increasing revenues by encouraging larger transfers of assets embodying capital gains. Finally, it is argued that the estate and gift taxes provide rough offsets to the avoidance of income taxes on capital gains.

Opponents of the preceding views argue that the alleged adverse effects upon the capital markets of including capital gains and losses in taxable income are greatly exaggerated. Empirical evidence indicates that realized gains and losses have fluctuated mainly with stock prices rather than with changes in tax treatment. Much of the actual impediment to transfers of capital gains is really due to the possibility of avoiding such taxes completely by holding appreciated assets until death. The effective attack upon these impediments, it is urged, is to remove all possibility of avoiding the tax by making every transfer of property, during life or at death, an occasion for recognizing a capital gain or loss, and, possibly, by periodically recognizing accrued but unrealized gains and losses. The gift and

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Considerations of Capital Gains Taxes

estate taxes do not offset the inequity of taxing capital gains at lower rates or exempting them because they are payable also by individuals who do not enjoy capital gains and by those who have paid income taxes on realized gains.

The problem of inducing enough venturesome investment cannot be met equitably or adequately by the preferential tax treatment of capital gains because the greater part of the rewards of risk-taking are often, perhaps usually, obtained from ordinary business profits, dividends, and rent. To the extent that we design the tax system to foster this type of investment, we should do so broadly, covering all the rewards for exceptional effort and risk, rather than a single and often spurious form of such rewards.

Even though capital gains and losses may conceivably cancel out in the long run for taxpayers as a whole, they do not do so for particular individuals. The net capital losses of some taxpayers do not justify complete tax exemption or preferential rates for the capital gains of others. Our taxation of capital gains, despite preferential rates, has actually yielded substantial revenues, only a portion of which can be attributed to the restricted deductibility of net capital losses. The irregularity of the revenues is not a solid reason for relinquishing them. Business profits too are notoriously unstable as a source of tax revenue. Reduction of the public debt is an excellent use for the surplus revenues of good years; and a revenue source that automatically declines in bad years has the virtue of lessening the adverse effects of Federal tax collections upon private spending in periods of depressed business.

The conflict of considerations barely summarized above is the "problem" of capital gains and losses—to devise a tax treatment for them that will most nearly satisfy the demands of equity—of giving equal treatment to similarly circumstanced individuals—and at the same time avoid unduly impeding useful transfers of capital assets. The major proposals for meeting this problem fall into two broad groups. One group seeks the full inclusion of capital gains and losses in taxable income, while minimizing the undesirable effects by averaging them or averaging total income over a number of years, or by including unrealized as well as realized changes in market values of capital assets. The other group would compromise the conflicts of equitable and practical considerations by various *ad hoc* measures of the same general character as those employed in the United States since 1922, but with increased or reduced recognition of capital gains and losses as components of taxable income. Common to both groups is the question whether and to what extent unrealized appreciation and depreciation should be recognized, particularly upon transfers of property by gift or at death.

Finally, from the welter of conflicting considerations that I have barely sketched, I have omitted an obscure, seldom expressed, but real, influence. That influence is a sentiment. Few persons like to see a baseball game in which there are no runs, no hits, and no errors; or a football game in which no one makes a touchdown. Many Congressmen and other persons have a similar feeling about the tax system and the chances of achieving outstanding financial success. They do not want an airtight tax system. They want to preserve the opportunity for a man to make a financial homerun, a touchdown, a killing. The preferential tax treatment of capital gains has the virtue, in their minds, of offering just such an opportunity.

Halsey Stuart Group Offers Commonwealth Edison 2¾% Debs.

An investment banking group headed by Halsey, Stuart & Co., Inc., on Jan. 11 offered to the public $49,000,000 Commonwealth Edison Co. 2¾% sinking fund debentures, due April 1, 1999, at 100.25% and accrued interest. The offering follows award of the issue to the Halsey, Stuart group on its bid of 99.57699%.

The indenture will provide for an annual sinking fund, beginning in 1951, designed to retire all but $1,000,000 debentures before maturity.

Proceeds from the sale will be added to working capital and earmarked for application toward the cost of gross additions to utility properties of the company in a four-year construction program scheduled for 1950-1953 and estimated to cost $290,000,000. The company estimates that approximately $151,000,000 of the total cost will be provided out of cash resources at the end of 1949 and depreciation accruals and undistributed earnings over the four-year period. The present $49,000,000 debenture issue is a part of the balance of $139,000,000 which the company anticipates providing through the sale of securities. Neither the nature nor time of the additional $90,000,000 financing has been determined.

The debentures are redeemable at prices ranging from 103.25% to 100%. If redeemed through the sinking fund, prices range from 100.27% to 100%, plus accrued interest.

Commonwealth Edison is a public utility operating company engaged in the production, purchase, transmission, distribution and sale of electricity. It does substantially all of the electric public utility business in Chicago, and controls through direct stock ownership, Public Service Co. of Northern Illinois, Western United Gas & Electric Co., Illinois Northern Utilities Co., Chicago District Electric Generating Corp., Chicago & Illinois Midland Ry. Co., and four other subsidiaries. Through subsidiaries it provides both electricity and gas in the metropolitan area around Chicago and in the surrounding territory of northern Illinois.

Pennsylvania RR. Eqp. Trust Ctfs. Offered by Halsey, Stuart Group

An underwriting group headed by Halsey, Stuart & Co. Inc. on Jan. 6 publicly offered $10,620,000 Pennsylvania RR. 2¼% equipment trust certificates, series Y, maturing $708,000 annually Jan. 1, 1951 to 1965, inclusive, at prices to yield from 1.30% to 2.525%, according to maturity. The group was awarded the issue on Jan. 5 on a bid of 99.434.

The certificates, issued under the Philadelphia Plan, are the first installment of a proposed issue of $20,820,000 trust certificates, series Y. The aggregate principal amount of these certificates are being issued to provide for new standard-gauge railroad equipment estimated to cost not less than $26,025,000, consisting of 193 Diesel-electric locomotives.

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The Security I Like Best

has purchased $100,000 of these convertible debentures on a collateral loan basis as outlined above has a call on or after Dec. 1, 1950, on 5,000 shares of Detroit Edison Company common stock at $20 a share. (If the shares are diluted through stock dividends of more than 10% during the time the issue is outstanding, the conversion price is reduced percentagewise accordingly.) Optimistically speaking, should Detroit Edison common, currently selling at 22, appreciate five points by the year-end, the debentures would automatically command a price of 135, or a long-term capital gain before taxes of $20,000, and $15,000 after maximum capital gains tax, equal to an appreciation of 100% on the cash outlay.

One of the additional advantages I mentioned is the advantageous tax provision applicable to this issue. In the opinion of our tax counsel the premium over the first call price of 103½ on Jan. 1, 1951, can be written off this year against ordinary income.

The following example applicable to an investor in the 50% tax bracket illustrates both the profit and loss potentialities, should the bonds sell at a high of 135 or at a low of 107 against a cost price of 115. It is natural to assume that the bonds are to be held over six months; and in order to receive the full tax credit of the write-down of the premium, they must be held during this taxable year. If the bonds are sold prior to the first call date, the premium is pro rated by the number of months held as against the total number of months from purchase to the first call date:

ILLUSTRATION

Bonds Sold at 135

Amt. rec. from sale	$135,000
Adjusted cost	103,500
Gross taxable profit	$31,500
Maximum cap. gains tax	7,875
Remaining profit	$23,625
Tax credit of 50% of write-down of $11,500	5,750
Total profit before deducting premium loss	$29,375
Loss on prem. write-off	11,500
Actual net prof. realized	$17,875

Bonds Sold at 107 *

Amt. rec. from sale	$107,000
Adjusted cost	103,500
Gross taxable profit	$3,500
Maximum cap. gains tax	875
Actual loss	8,000
Gross loss bef. tax cred.	$8,875
Tax cred. (50% of write-down of $11,500)	5,750
Actual net loss realized	$3,125

* At 107 bonds yield 2.12% to maturity.

Applying the same formula to an investor in a 70% tax bracket, we find the actual net profit realized will amount to $20,175 vs. a potential actual net loss of $825.

The potential profit possibilities as compared percentagewise to the risk of loss involved appear so predominantly in favor of a commitment in Detroit Edison Company 3% convertible debentures of 1958 that I have chosen them to head the category of my favorite securities for 1950. Last, but not least, we have found our clients most agreeable to paying us a service fee of one point per bond for acquainting them with details of this issue and arranging the loan facilities. The presentation of this idea has resulted in some substantial and profitable business, and I hope many others may profit by it in the New Year.

MAXWELL B. ROBERTS

Dreyfus & Co., New York City

A graph of the average price of all domestic common shares listed on the New York Stock Exchange, plotted against the Dow Industrial Average, starting out with a common point on Jan. 1, 1937, will show a very revealing aspect of the stock market. The two lines seem to fluctuate together until the 1946 top. At that time, both averages took a downhill slide together. But the "all stocks" average ended up much below the Dow Industrials. It has since then never recovered. Of course, the average of all shares includes investment quality (as exhibited by the Dow), semi-investment, speculative and in-between quality shares. If the investment quality stocks were eliminated from the average of all stocks, there would be a wider discrepancy in my opinion. The obvious conclusion must be that speculative stocks are on the bargain counter today.

Maxwell B. Roberts

In sifting through the stocks on the New York Stock Exchange and Curb, I ended up with five stocks which can do exceptionally well percentagewise; they are all low-priced; they all have a very wide following among speculators in a wide upward swing of the stock market (which I envisage); and all are selling in the lower part of their respective ranges 1937-40. A "bouquet" of these should provide handsome rewards. They are:

Issue—	Price
American Cable & Radio	*4
Baltimore & Ohio	*10½
Evans Products	*9½
Servel	*11⅛
United Airlines	*15⅛

*Prices as of Jan. 4, 1950, the date of preparation of this article.

B. WINTHROP PIZZINI

B. W. Pizzini & Co., New York City

Announcement that the stock recapitalization plan of the Boston & Maine is effective is expected shortly. This should have a favorable effect on the price of the prior preferred stock currently selling around 38. The plan in no way affects the road's bonds, but eliminated all dividend arreas and replaces the present class of stock with a single preferred issue of 275,297 shares and a common stock issue of 549,135 shares.

B. W. Pizzini

All of the new $100 par, 5% preferred is to be distributed to prior preference stockholders, at the rate of 1.2 shares for each share now held. In addition, this group is given common stock on a share for share basis. The balance of the junior equity goes to holders of the various presently outstanding preferreds and common in varying amounts.

The amount available for preferred dividends is based upon earnings after deduction of fixed and contingent charges, including sinking funds. Dividends are to be cumulative to the extent earned. Beginning in 1951 an amount equal to ½% of the par value of the preferred stock is to be set aside as a sinking fund on the issue before declaration of any dividends on the common. Each preferred share is convertible into 1.75 common shares.

Assuming that the new preferred would be appraised in the market at no better than the New Haven preferred, the old prior preference Boston & Maine currently selling at 38 looks undervalued. With New Haven preferred selling at 31, 1⅕ shares of new Boston & Maine preferred would be worth 37 plus one share of common at 7 would make 44. Another six points would be added if as expected a full year's dividend is immediately declared.

The Boston & Maine has been doing a consistent job in reducing fixed charges over the past ten years. It has been adopting a policy of employing funds derived from the sale of property to purchase its First Mortgage and Income bonds and although funds were used this year out of the proceeds of sale of the Mystic Docks to the Port of Boston late in 1948 for $1,340,000, the road is reported to have also used some of its cash. During 1949, the railroad bought in some $1,200,000 of the First 4s of 1960 as compared with purchases throughout 1948 of $1,010,000 and in so far as the Income 4½s of 1970 are concerned, the comparable acquisitions were over $1,200,000 as contrasted with $1,109,000. Both issues were bought in at substantial discounts.

The road has retired its debt in substantial amounts over the past nine years; its program has cut its fixed charges from just under $6,000,000 in 1940 to around $3,500,000 at the end of 1948.

By ALBERT G. WOGLOM

President, A. G. Woglom & Co., Inc., Boston, Mass.

It is indeed a pleasure to participate in your forum on "The Security I Like Best." That is a tough assignment. So much hangs on the success or failure of the "Unfair Deal" that it is difficult to foretell under what conditions business and the financial community will be forced or allowed to operate.

Albert G. Woglom

But hope springs eternal and assuming that present conditions will be fairly constant, let me suggest, as outstanding values for appreciation and income, the 5% preferred and common of the Maine Central Railroad. Many investors are allergic to railroad securities but it really makes little difference in what field a company operates so long as it is successful in that field, and this one definitely is.

The 5% preferred is selling in the low 70's and, as of Dec. 1, 1948, carried arrears of $85 per share. Plans are nearing completion for clearing up these arrears. The management's plan proposes to capitalize the arrears by increasing the present par value of $100 to $185 and to pay dividends of 4% on the new par, or an annual dividend of $7.40 per share. An intervening committee of stockholders concurs in the idea of capitalizing the arrears but holds that the rate of dividends ought to continue at the present 5%, and that the stock should be split four for one. To make it an easily divisible par value, the committee proposes that a payment of $5 in cash first be made, reducing

the new par to be $180, or a total yearly dividend of $9 per share after payment of the $5 in cash.

An ICC examiner's report of last June approves most of the committee's views, although turning down the split proposal. On Sept. 20 a final hearing was held before the full ICC, and a decision from it is expected at any moment. Assuming that the ICC approves of its examiner's recommendations, which seems likely, and the assent of 75% of the preferred shares, which also seems likely, the Maine Central 5% holders can expect within a reasonably short time, $5 in cash against principal, $9 in cash for the year's accruals since date of plan, and annual dividends of $9 thereafter.

The common is selling under 15, or about 1½ times the 1948 earnings and a little over twice expected earnings for 1949. Completion of the above preferred plan will, of course, make the common eligible for dividends, and perhaps in substantial amounts. Obviously the road's ability to make continuous payments on both classes is the deciding factor in their evaluation, so let's look at the record.

In only three of the last 21 years (1932, 1935 and 1938) has the Maine Central failed to earn its fixed charges and even then not less than 80%. **But**, this occurred when fixed charges amounted to more than $2 million annually, whereas they are today about $1 million less, due to the buying in of debt and leases. It is interesting to note that **if** today's fixed charges had been in effect during those 21 years, and without attempting to estimate how much greater taxes would have been, the preferred would never have earned less than $15 nor the common less than $1.50, and the **average** would have been about $40 and $7.60 respectively, for that entire period. The earnings for 1949 are estimated by Standard & Poor's at $32 per preferred and $6.75 for the common, not as good as 1948, but not too far away when it is considered that there have been a few non-recurring charges made in the latest year, and that about 10,000 cars less potatoes were shipped from this harvest than in 1943.

"Dieselization" is a magic word in railroading, but applied to the Maine Central, which pays the highest price per ton of coal of any road in the country ($9.80 versus $4.82 average for Eastern carriers), the word virtually shouts savings of magnitude. The present program of dieselization has only recently been completed, and diesel tractive effort, although it has increased from 16% in early 1948 to 49% in late 1949, can obviously show greater gains in the future.

Finally, let me say, and with tongue in cheek, that the preferred stock has no vote, that management and directors own large amounts of common, and that the big earnings of the past have been ploughed back into modernization of roadbed and equipment, and reduction of fixed charges.

B. K. THURLOW

Analyst, Minsch, Monell & Co., New York City

Our favorite security, without any hesitation, under today's conditions is the low-priced stock. Even a superficial look at the statistical position of these issues should convince the value-minded investor that they are drastically out of line with stocks of similar quality selling at higher prices. And yet, it is always surprising to observe how many investors, astute about equities as a whole, are quite ignorant even of the most basic characteristics of low-priced stocks. Many are horrified at buying so-called "cats and dogs" because these issues frequently represent the marginal, inefficient units of an industry. For the conservative investor this objection seems valid enough. However, for the investor who has capital he can afford to risk in the probability that he will increase it without paying the maximum income tax rates, the objection seems as foolish as that of a friend of ours who wouldn't buy low-priced stocks "because nice people don't buy things like that." Since these issues are currently suffering under such heavy unpopularity, we feel called upon to justify our fondness for them. There is no better way of doing this than to point out some of their principal characteristics.

B. K. Thurlow

The most important feature of low-priced stocks is, of course, their low price. Most of today's industrial giants and practically all of the good secondary companies began their existence as "dogs." The financial success of those who bought them in their infancy is legendary. We are skeptical of our own or anyone else's ability to find tomorrow's General Motors or Du Pont selling at today's five dollars, but we think there is something to be learned from the experience of those unsuccessful millions who have tried. Those who have known enough to take advantage of disparities between market price and true value have almost always made money. Such disparities exist in all free markets. Because of the marginal position low-priced stocks occupy in the investment hierarchy, their price movements are nearly always exaggerated. Therefore the disparity between their price and value will tend to be greater than in higher priced issues, which means that one who believes in investing by taking advantage of existing disparities will logically achieve his best results in low-priced stocks.

It has been our belief for well over a year that we have been in a period of pronounced general pessimism. We believe that since June of 1949 we have been emerging slowly from this long period and that 1950 will see a continuation of this process. One statistical organization which has tabulated fluctuations of low-priced stocks since 1926, states that their price level is now equivalent to around 135 (i.e. the early 1943 level) in the Dow-Jones Industrials. To us this implies that the buyer at these levels is provided with a very real cushion should stock prices decline further, and a means of doing substantially better than the general market if the "normal" relationship between low- and high-priced stocks is going to be restored *as it has after every bear market since 1926.*

In the past it would have been necessary to select low-priced stocks either on technical action or pure hope. Today one can find statistical values corresponding to higher priced "outstanding values" like Youngstown Sheet or Montgomery Ward. In many instances, low-priced issues with strong technical positions and excellent long-term outlook are selling for less than their net quick assets or the money which has been reinvested in them during the past five years. We believe that such a situation shows an evident disparity between price and value. The patient buyer of these stocks need only assure himself that the company will remain in business.

Using obviously deflated issues like American Hide and Leather, Calumet & Hecla, and Shattuck Denn as our nucleus, we choose as our favorite security right now for the investor with risk capital a well-diversified list of low-priced stocks chosen from the following list:

Stock—	Price	1949 Low	1945-46 High	Vacuum cleaners Business
*Amer. Hide & Leather	‡5	3⅛	12⅞	
*Calumet & Hecla	‡3⅞	3½	12¾	Shoe leather
				Copper mining
*Eureka Williams	‡5¼	3¾	22½	and fabricating
*Intl. Tel.	‡9⅛	7½	33	Communications
†Niles-Bement-Pond	‡9½	7¾	26¼	Machinery
*Pepsi-Cola	‡8¼	8	40½	Soft drinks
†Shattuck Denn	‡2¾	2¼	10¾	Lead, zinc
*Twin Coach	‡5	4¼	26½	Buses
*United Cigar-Whelan	‡3	2¼	17¼	Cigar stores
*Western Airlines	‡7⅛	5	40½	Airlines

*Listed New York Stock Exch. †Listed New York Curb Exch.

‡Quotations are those which prevailed on Jan. 4. The article was originally scheduled to appear in our issue of Jan. 5 but, owing to mechanical problems, it could not be accommodated therein.—Editor.

We believe that a portfolio selected from the above should do better percentagewise, with little more risk, than any single issue we could select on the basis of pure analysis. We therefore submit the entire list as our favorite security.

Securities Salesman's Corner

By JOHN DUTTON

Sometimes when you are writing a column like this, week after week, you wonder if you are not overdoing the philosophy and generalities that are nevertheless part of the basic foundation of successful salesmanship. But the more I see of the profession of salesmanship, the more evident it becomes that the men who are successful do have certain prime qualifications very much in common with all others who have also made good as salesmen. So with your indulgence again I would like to relate a conversation between three men (all complete strangers) which I overheard last week on the train while I was taking a trip. I think it illustrates something that can be helpful.

The conversation started with a discussion of the Welfare State — of the way this country has been drifting into a quest for security — of the shorter work week — of less regard for employer's interest and lack of incentives due to such things as seniority, union regulations, etc. The oldest man in the little group who were seated together in the smoking vestibule of the train then told us that he had been a salesman all his life. He related how he started out as a young man and worked against the usual obstacles of inexperience, and even the loneliness which he encountered on his long trips through the country. He said, now that he was old and had a coronary condition, that his firm was sending him on a vacation for as long as he needed it. But he also told us that during the war he had made special trips to help his customers obtain hard to get merchandise, and how he also thought of his buyer as **"we."** He said, "I realized soon that it takes **two** to make a bargain. It takes **two** to do business. It takes **two** to become **friends."** And then he told us: "I now have over 700 friends in five States (all my customers). "They said to me, "Bill, you've taken care of us all these years — now that you need us we are going to take care of you — we will send our orders in to your office; you come to see us again when you feel better." Then with a smile, he said, "I've worked hard, but I've had a lot of fun. Couldn't have had a better life!"

With this, another man, somewhere in his mid-forties, spoke up. "You know I am pretty happy too. I don't want to tell you the story of my life, but three years ago I lost all I had built up — a fine business and $60,000. I moved away and took up my residence in a new town; didn't know anybody. For the first few months I just couldn't get back my courage. Then I took a job hustling up customers for a laundry. I did this because I knew the business. You see I owned one of the best dry cleaning and laundry establishments in my former home town—and here I was walking from door to door trying to pick up bundles. Then I felt better and I saw I couldn't get back on my feet this way. So I got a job as a commission salesman for a life insurance company. It has been almost a year now. Two weeks ago I sold a $25,000 policy — my first year has been hard but it has been good. I've made a living and I've got my courage back. I feel fine too!"

And the moral if any, we all decided, was that we only grow better and stronger by overcoming obstacles. A good salesman knows this. He does the hard things first because he knows it is the only way to enjoy life. Also, if you take the boy out of a man he is through. Any time it is no longer any fun to **do something** you might as well hang up the shingle.

Friday Night Bond Club Dinner Dance

On Saturday evening, Feb. 11, 1950, the Friday Night Bond Club will hold its Fourteenth Annual Dinner Dance at the Hotel St. George, Brooklyn, N. Y.

The aim and purpose of the organization is to establish broader and more friendly contacts between the personnel of the "Street."

With Randolph Newman

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Roland A. Thomas has been added to the staff of Randolph Newman & Co., Marine Bldg.

Leo D. Tyrrell Opens Own Office in Phila.

Leo D. Tyrrell

PHILADELPHIA, PA.—Leo D. Tyrrell has opened offices at 123 South Broad Street to engage in a securities business. Mr. Tyrrell was formerly a partner in Biddle, Whelen & Co.

First Boston Group Offers Seaboard Fin. $1.35 Preferred Stock

A new issue of 120,000 shares of $1.35 convertible preferred stock of Seaboard Finance Co. ($25 stated value) was offered publicly on Jan. 11 by The First Boston Corp. and Associates. The stock is priced at $27 per share and is originally convertible into 1.31 shares of common stock.

Redemption prices for the new preferred stock range from $28.25 per share on or prior to Dec. 31, 1951 to $27.25 per share after Dec. 31, 1957.

Proceeds from the sale will be added to working capital and will be used to lend to borrowers, to purchase receivables, to reduce bank loans, to retire commercial paper and/or to lend to or invest in subsidiaries for such purposes.

Capitalization adjusted to reflect the issuance of the preferred stock consists of $36,915,000 debt; 73,425 shares of $2.60 convertible preferred stock; 120,000 shares of $1.35 convertible preferred stock, and 935,378 shares of common stock.

Seaboard Finance Co., operating 94 offices located in 21 States, is engaged principally in the personal finance business, primarily making small loans to individual borrowers, and, to a lesser degree, purchasing retail installment sales contracts originating with automobile dealers and others, as well as making loans to such dealers to finance wholesale purchases. Average receivables outstanding during the fiscal year ended Sept. 30, 1949 totaled $46,989,849; gross income, $10,008,307, and net income available for preferred dividends, $2,153,224.

Earnings for the common stock were $2.10 per share for the same period and the company estimates such earnings will be approximately $2.60 per share in the 1950 period.

Harry Faath, Jr., Now With G. C. Haas Co.

G. C. Haas & Co., 63 Wall Street, New York City, members of the New York Stock Exchange, announce that Harry W. Faath, Jr., formerly in the municipal bond department of Boettcher & Company's New York office, is now associated with the firm in its bond department.

I. M. Simon Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Clarence A. Reichardt has become affiliated with I. M. Simon & Co., 315 North Fourth Street, members of the New York Stock Exchange.

Continued from first page

The Power Behind The Stock Market

postwar deflation. Hence, investors refused to capitalize 1946 earnings at a normal ratio. When earnings held up in 1947, this, too, was considered abnormal, a non-recurring satisfaction of pent-up consumer demands held over from the war, and the market made no response. So far, there was a great deal of logic in the picture.

But, when earnings in many cases went higher in 1948 and still higher in 1949, with stocks in the summer of 1949 going down rather than up, it became apparent that earnings, even with a heavy correction for the factor of investor psychology, did not explain the price pattern. We are now confronted with a situation where the yield on high grade stocks is at one of the highest levels on record and the yield on high grade bonds at one of the lowest levels. By all accepted "yardsticks" of earnings, dividends, and asset value, stocks have become progressively cheaper over the last several years.

This brings us to the second price-making factor, which is the old law of supply and demand. At the risk of stressing the obvious, we would point out that prices cannot rise until the effective demand exceeds the supply. As the supply side of the equation has not varied greatly in recent years, let us consider demand, both potential and effective.

Potential demand might be considered as being the liquid assets of the country. To show the growth in liquid assets in the last decade we give below the Federal Reserve Board figures:

ESTIMATED LIQUID ASSET HOLDINGS OF INDIVIDUALS
(in billions of dollars)

	Personal Holdings in									
	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Currency	$4.2	$4.9	$6.8	$10.3	$14.4	$18.3	$20.8	$20.8	$20.6	$20.0
Demand depos.	8.4	9.1	11.3	15.1	18.2	21.8	26.5	31.1	32.3	30.8
Time deposits	24.3	24.9	24.9	25.6	29.7	36.3	44.6	49.6	51.7	52.6
Sav'gs & loan shares	3.9	4.1	4.4	4.7	5.2	6.0	7.0	8.1	9.3	10.5
U. S. Govt. securities	8.8	9.4	12.1	21.1	33.0	46.0	55.6	55.6	58.4	60.9
Total	$49.6	$52.4	$59.5	$76.8	$100.5	$128.4	$154.5	$165.2	$172.3	$174.8

From the foregoing it can be seen that liquid assets are at high levels—at least three times prewar. However, this potential demand has not become effective demand. This is best illustrated by the report of the Securities and Exchange Commission on "Volume and Composition of Individual Savings." From 1941 to 1948, inclusive, the "Total Liquid Savings by Individuals" was $183.2 billion. Of this, only $2.1 billion, or slightly over 1%, was invested in corporate securities.

Why have investments in corporate securities failed to keep pace with the tremendous growth in other forms of savings? We feel that the answer lies in the ownership of the newly created liquid savings. Relatively, if not actually, the wealth of the country has been redistributed. Our inheritance and income tax laws have operated against large estates and large incomes, which in the past were sources of equity capital. The new wealth is largely in the hands of those who are familiar only with insurance, bank deposits, savings and loan associations, etc. These institutions are forbidden by law to invest in the equity market, and their search for additional earnings assets has tended to push high grade bonds even higher while stocks are neglected.

There are several reasons for thinking that this neglect has about run its course. In the first place, the history of capital has been that it is always seeking its best employment. The Federal Reserve Bulletin for October 1949 reports on a "Survey of Consumer Finances" in which spending units with incomes of $3,000 and over were asked the reasons for and against holdings of various types of assets. As might be expected, a major reason against holding common stock was "not safe" (28%), but, surprisingly, the main reason was "not familiar with" (34%). In short, many people have not invested in stocks because they have never been "sold" the idea to do so and the success of the open-end investment trusts would tend to bear out this fact. These trusts are already an important market factor. Then, too, many people received 12% income, or more, by owning General Motors last year, while their savings accounts paid 2%. We believe the profit motive is still a factor in our economy, and wide spreads in yields between various forms of investment tend eventually to narrow.

In the survey mentioned above, less than ½ of 1% of the people interviewed considered "hedge against inflation" as a reason for owning stocks. We have all seen the prewar dollar lose, roughly, half of its purchasing power. With farm prices supported, wages and prices following each other upward, round after round, and the Federal Government spending $40 to $45 billion annually, further dollar depreciation is likely. Should this begin to get more general recognition, holders of low yielding liquid assets, payable in dollars, may begin to question not only whether they are paying too much for safety but whether their policy is even a safe one. They may conclude that part of their liquid assets should be invested in equities.

There are some other less likely reasons for a flow of capital into equities, which should at least be kept in mind: the possibility of a partial elimination of the double taxation on corporate dividends; relaxation of laws which prohibit life insurance companies from investing in stocks; and the eventual investment of pension funds in equities.

The possible effect of a flow of capital into the stock market should receive careful consideration. The number of shares traded on the Stock Exchange in any one year is usually less than 25% of the shares listed. For many of the well seasoned stocks this figure is less than 5%; in other words, 95% of these shares are not a factor in price determination in a given year. If we take out floor trading, switches by investors, etc., it would seem that relatively small net purchases or sales set the price pattern. It is generally agreed that the stock market inflation of 1926-1929 was caused in the main by a credit expansion reflected in brokers' loans. These rose from $3.5 billion in January 1926 to $8.5 billion in September 1929; but the effect on the price structure was greatly magnified—the value of listed securities, in the same period, increased from $35.2 billion to $89.7 billion. Thus, the injection of $5 billion new money (credit) into the stock market was one of the main factors causing a rise of over 200 points in the Dow Jones Industrial Average. Yet this figure of $5 billion is small by present day standards. We have noted that the liquid asset holdings of individuals is $174.8 billion. The flow of even relatively small amounts of these holdings into the stock market could cause a substantial move.

It has been our purpose in this summary to make investors aware of this potential force, rather than project its timing and effect, but for those who wish us to set some broad objectives, we submit the following approach: The two best defined bull markets of the past sixteen years were those of 1934-1937 and 1942-1946. These lasted three years and four years, respectively, and both exceeded 100% in extent of move. If the historical precedent of these two markets is to be followed, the present bull swing, which started in June 1949, has covered less than 25% of its extent and duration. While the starting level in this move was substantially higher than in 1934 or 1942, we accept this as the market's appraisal of the price inflation that has been frozen into the economy since 1942 plus the reinvestment of undistributed earnings.

Crocker First National Appoints Officers

SAN FRANCISCO, CALIF.—At the meeting of the board of directors of Crocker First National Bank of San Francisco held following the annual meeting of stockholders at which all directors were re-elected, W. W. Crocker, President, was appointed Chairman of the board of directors succeeding J. K. Moffitt, who becomes Chairman of the Executive Committee. J. F. Sullivan, Jr., Senior Vice-President of the bank, was made President. Mr. Crocker served as President since 1936 when he succeeded his father, the late William H. Crocker.

The directors authorized the transfer of $2,000,000 from undivided profits to surplus, increasing this figure to $12,000,000. The sum of $200,000 was also transferred from general reserves to undivided profits which now amount to $3,350,277. Giving effect to the transfer of these funds, the capital account of the bank is as follows: Capital, $6,000,000; surplus, $12,000,000; undivided profits, $3,350,277 and general reserves, $4,000,000.

Mr. Crocker is a director of Fireman's Fund Insurance Company, Matson Navigation Co., Pacific Lighting Corp., Pacific Gas & Electric Co., Southern Pacific Co., The Pacific Telephone & Telegraph Co., and other important Pacific Coast business enterprises. He is also active in the civic and cultural life of San Francisco.

Mr. Sullivan, a native of San Francisco, is the son of the late Jeremiah F. Sullivan, San Francisco jurist, who was well known in Pacific Coast legal circles for over 50 years.

Mr. Sullivan started his banking career in 1919 with Crocker National Bank. He became a Vice-President in January, 1930, was named a director in 1943, and in 1944 he was named a member of the Executive Committee. In May, 1945, he was appointed Senior Vice-President. He is a member of the San Francisco Clearing House Association and is a Past President of the California Bankers Association.

Joins Harris, Upham Staff

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Lee L. Lockridge has become associated with Harris, Upham & Co., 912 Baltimore Avenue. He was formerly with H. O. Peet & Co. and McDonald & Co.

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The State of Trade and Industry

The number of delinquent orders have been reduced faster than steel buyers thought they would be. Mills are saying that sheets will be easier after April but some buyers are not so sure.

Still, this publication adds, the appliance makers who are pushing production to capacity are beginning to wonder if they may not find themselves in the same jam they got into during the second quarter of 1949. At that time they filled the supply pipelines to capacity. Distributors then got panicky and made sharp inventory cutbacks. In the light of second half sales, these cuts proved too drastic.

Appliance makers report that their steel cost per unit went up about $1.00 on an ordinary electric or gas range. But by the time their suppliers add their increased costs the total boost may be $3.00 to $5.00 per range. At the moment they plan to absorb the increase but it is possible that it will be passed on once the new cost picture is clear.

The same attitude on absorbing higher steel prices prevails in Detroit where Chevrolet posted no advance on its new line last week. As a result of the heavy increases in extra charges on very wide sheets (the extra on 34-inch wide cold-rolled sheet is now $47 a ton against an extra of $10 for 62 to 72-inch wide sheets) some changes may be made: (1) Hoods may be made in two pieces; (2) some auto firms may weld small pieces on some sheets to avoid having to use the very wide sheets (one company is already doing this but applications are limited); and (3) car designers will make a concentrated effort to design for use of the more economical size sheets.

Though demand for sheets and strip is just about as strong as it has ever been since the war, other steel products are mixed, by area. The effect of freight rates shows up in a brisk demand for plates in Chicago where they may go on allocation during the second quarter, while they are relatively easy in the East.

Trucking companies hauling steel will post new rates within the next few weeks. By March 1 tariffs generally will be some 15% higher. The existing spread between rail and truck rates is anywhere from 25 to 35% in favor of the truckers. Narrowing the gap by the proposed increase may decrease the trend toward steel shipment by truck — one large steel company reports that truck shipments increased 12.5% last year for a gain of 26% in two years. For the buyer—no matter what else it does—it increases the tendency to buy steel as close to home as possible, "The Iron Age" concludes.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 97.2% of capacity for the week beginning Jan. 9, 1950. This compares with 96.1% in the preceding week.

This week's operating rate represents a rise of 1.1 points from last week. The present rate is the highest since May 2, last, despite walkout in soft coal mines idling more than 50,000 workers.

This week's operating rate is equivalent to 1,791,900 net tons of steel ingots and castings compared to 1,771,600 net tons one week ago. A month ago the rate was 94.1% and production amounted to 1,734,700 tons; a year ago it stood at 99.3% and 1,830,600 tons, and for the average week in 1940, highest prewar year, at 1,281,210 tons.

The rate this week was estimated on the basis of 1949 capacity. The Institute computes the capacity each year and although the 1950 figure represents a new peak, data are not yet available.

ELECTRIC OUTPUT SHOWS STRONG RECOVERY IN PAST WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 7 was estimated at 5,695,372,000 kwh., according to the Edison Electric Institute.

It was 202,698,000 kwh. greater than the figure reported for the previous week, 46,291,000 kwh., or 0.8% lower than the total output for the week ended Jan. 8, 1949, but 417,692,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS FALL 20.5% BELOW PREVIOUS WEEK'S LEVEL

Loadings of revenue freight for the week ended Dec. 31, 1949, which included the Christmas holiday, totaled 495,634 cars, according to the Association of American Railroads. This was a decrease of 88,976 cars, or 20.5% below the preceding week.

It also represented a decrease of 88,976 cars, or 15.2% below the corresponding week in 1948, and 186,485 cars, or 27.3% below the similar period in 1947, both of which included the New Year's holiday.

AUTO OUTPUT RISES WITH DAILY RATE CLOSE TO RECORD

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada is estimated at 118,588 units compared with the previous week's total of 113,026 (revised) units. It was the first time since the week ended Nov. 19, that the total has exceeded 100,000.

On the basis of the four-day holiday work-week, daily output of plants last week was within 1,500 units of the record rate of 29,500 a day reached last September, the agency noted.

The total output for the current week was made up of 94,631 cars and 17,715 trucks built in the United States and 4,395 cars and 1,847 trucks built in Canada.

The week's total compares with 98,442 cars built in the U. S. and Canada a year ago.

BUSINESS FAILURES ADVANCE SHARPLY IN LATEST WEEK

Commercial and industrial failures rose to 161 in the week ended January 5 from 109 in the preceding week, Dun & Bradstreet, Inc., reports. Despite this increase casualties were below the 1949 average of 178 per week. Although they exceeded the 128 and 87 which occurred in the similar weeks of the last two

years, failures were about one-half as numerous as in prewar 1939 when 312 succumbed.

Failures involving liabilities of $5,000 or more increased to 130 from 83 a week ago and compared with 110 in the similar week a year ago. Small casualties, those with liabilities under $5,000, rose to 31 from 26 and were almost twice the number of a year ago.

In manufacturing, construction and commercial service, failures about doubled the previous week's totals, while the increase in retail and wholesale casualties was more moderate. All industry groups except construction had more failures than in the corresponding week last year.

The increase was noticeable in the New England, Middle Atlantic, Pacific and South Atlantic regions. Declines were reported in the West North Central and South Central regions. Most areas reported increases over the similar week of a year ago, although New England and East South Central casualties remained unchanged and West North Central and South Atlantic dipped slightly.

WHOLESALE FOOD PRICE INDEX SHOWS MILD RECOVERY IN LATEST WEEK

Following the mild downward movement of the four previous weeks, the Dun & Bradstreet wholesale food price index rose slightly to stand at $5.73 on January 3, from $5.72 a week previous. The latest figure represents a decline of 6.4% under the $6.12 recorded on the like date a year ago.

The index represents the sum total of the price per pound of 31 foods in general use.

WHOLESALE COMMODITY PRICE INDEX TREND STEADIER IN LATEST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., displayed a somewhat steadier trend in the past week. The index moved in a narrow range and closed at 245.49 on January 3, off slightly from 245.55 one week earlier. It compared with 268.36 on the corresponding date a year ago.

Activity in leading grain markets declined sharply in the past holiday week.

Daily average sales of all grains on the Chicago Board of Trade fell to 26,600,000 bushels, from 35,000,000 bushels the previous week. Price movements continued to be irregular and narrow. The cash wheat market was largely nominal. Demand from mills was very quiet and movement from the country light.

The cash corn market developed a stronger tone. Shipping demand for corn was only fair but there was a good demand originating with elevator interests and the feed trade. Oats showed independent strength, aided by a pick-up in shipping demand and reports that Holland would purchase 4,000,000 bushels for shipment by May 30. Flour prices were slightly firmer at the week-end, although there was practically no demand for flour beyond immediate or nearby shipment.

Cocoa values continued to edge higher, aided by good manufacturer and speculative buying early in the week. Trading in coffee was curtailed by the holidays but values in both the spot and futures markets made further advances in the final week of the year. Lard prices remained firm, aided by good domestic demand. In the Chicago livestock market, choice fed steers and hogs sold at slightly lower levels than a week ago. Lambs continued to rise.

Following a slow start, trading activity in the domestic cotton market picked up momentum in the latter part of the past holiday period. Prices were firm and showed a further slight rise.

Supporting factors in sustaining values included good mill buying and export price-fixing, and some buying influenced by expectations of an advance in the mid-December parity price.

Offerings were furnished through profit taking, hedge selling and some year-end tax selling. The Dec. 15 parity price, issued after the close of trading on Friday, was placed at 29.76 cents a pound. This was up 12 points over the revised November level and compared with 30.50 cents on the corresponding date a year ago.

Entries of cotton into the government loan stock during the week ended Dec. 22 dropped to 189,774 bales, from 261,993 the week before, and 201,976 in the comparable week of last year.

Entries for the current season through Dec. 22 totaled 2,199,990 bales, comparing with entries of 3,789,296 bales to approximately the same date last season. The carded gray cotton goods market finished the year on a strong note with production reported sold up from 90 to 120 days ahead.

RETAIL TRADE REFLECTS NOTICEABLE CONTRACTION IN VOLUME FOR LATEST WEEK—WHOLESALE TRADE FRACTIONALLY LOWER

Consumer buying declined noticeably in most sections of the country during the period ended on Wednesday of last week. The loss of a shopping day in the post-New Year's period was not offset by the many seasonal clearance sales occurring at this time. As a consequence, dollar volume for the week was slightly below the level for the corresponding period a year ago, Dun & Bradstreet, Inc., states in its current review of trade.

The interest in clothing declined somewhat last week. Dresses were generally neglected by shoppers, except for formal styles, particularly teen-age models. Women's coats were in scant demand in many localities despite promotions. Few fur-pieces were bought, following generally mild weather in some areas. Men bought slightly less suits and coats than in the previous week, though haberdashery remained fairly popular.

The high level of holiday food purchasing dipped slightly in the week with unit volume moderately above that for the similar week a year ago.

Fresh meats and green produce were less popular than in the previous week with demand for canned and frozen foods continuing unchanged.

The consumer demand for furniture and some housewares showed further slight declines last week. The purchasing of toys and novelties, in keeping with seasonal expectations, decreased sharply. Promotions of towels, blankets, sheets and comforters were generally unable to sustain demand for these items on a level with former weeks. Glassware and chinaware remained popular, as did small appliances.

Total retail volume for the nation in the period ended on Wednesday of last week was estimated to be from 1% above to 3% below that of a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

New England and Southwest +3 to —1; East and Pacific Coast 0 to —4; South and Midwest —1 to —5 and Northwest +2 to —2.

Total wholesale volume dipped slightly in the past week, as the immediate demand for many goods was at a seasonally low level. The previous high rate of orders for future delivery was sustained, however. Dollar sales were slightly below those for the similar week a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 31, 1949, decreased by 3% from the like period of last year. In the preceding week an increase of 14% was registered above the like week of 1948. For the four weeks ended Dec. 31, 1949, sales registered an increase of 3% from the corresponding period a year ago, but for the year to date show a decline of 5%.

The post-holiday lull in retail trade in New York last week was more pronounced with estimated sales for department stores averaging about 20% under the like week in 1949. The curtailed business week with one less shopping day was an important factor in the decline.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 31, 1949, declined by 3% from the like period last year. In the preceding week an increase of 12% was registered above the similar week of 1948. For the four weeks ended Dec. 31, 1949, an increase of 1% was reported from the like week of last year. For the year to date, however, volume decreased by 6%.

NOTE—On another page of this issue the reader will find the most comprehensive coverage of business and industrial statistics showing the latest week, previous week, latest month, previous year, etc., comparisons for determining the week-to-week trends of conditions, by referring to "Indications of Current Business Activity."

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Truman Reviews Economic Situation

lower. One outstanding development was the growth of pension and social insurance plans financed in whole or in part by employers.

Work stoppages in 1949 were about the same in number as in 1948, but the two major stoppages, in coal and steel, involved such a large number of workers that the loss in man-days of work was about 50% greater than in 1948.

Profits were lower in 1949 than in 1948. For the year as a whole, corporate profits before taxes and the inventory valuation adjustment were $27.6 billion, a drop of about 21%. Much of the loss in reported profits represented the effect of falling prices on inventory valuation.

Farm income (realized net income of farm operators) declined about 15%, reflecting the decline in prices. The agricultural price-support program prevented a much sharper decline in prices and incomes.

Credit terms generally eased during the year. Interest rates declined. Business loans, reflecting the liquidation of inventories, declined sharply during the first six months but began to advance again in the latter part of the year. Instalment credit, after a slight decline in the first quarter, resumed its advance and reached a new postwar peak. Most notable was the more than 60% increase in automobile instalment credit during the year.

Consumers' disposable income was slightly higher in 1949 than in 1948, rising from $190.8 billion to $192.9 billion. The trend, however, was different, rising every quarter in 1948 and falling every quarter in 1949. In the fourth quarter of 1949 the annual rate was $191.1 billion. Unemployment compensation in 1949 contributed $1.9 billion to consumer income, $1 billion more than in 1948.

Consumer expenditures for goods and services were remarkably constant throughout 1949. Their total was $179 billion. This was equal to the total for 1948 as a whole, but about $2 billion lower than the annual rate in the second half of that year. Allowing for price changes, consumers' expenditures represented a slightly higher volume of goods and services purchased than in 1948. An increased proportion of consumer spending was devoted to purchases of services and durable goods, a decreased proportion to the purchase of non-durable goods.

Net personal saving amounted to $14.4 billion, compared with $12 billion in 1948. During 1949, however, the trend of saving was downward, from an annual rate of $16.3 billion in the first quarter to 13.1 billion dollars in the fourth. While personal savings in 1949 was high by any previous peacetime standards, it is estimated that about one-third of all families did not add to their savings, but instead spent more than they earned.

Private domestic investment in 1949 was 18% below the preceding year, primarily because of a shift from accumulation to liquidation of inventories. By the fourth quarter, the liquidation of inventories was slowed down, but investment in plant and equipment continued to decline. The drop in business investment was the principal feature in the lower level of economic activity in 1949.

Construction, in spite of a slow start, exceeded the high level attained in 1948 by 3% in dollar volume, and was an important stabilizing force in the economy. Public construction increased by 25% over 1948. Private construction declined by 4%, but residential construction was particularly strong in the second half of the year, rising to a new postwar peak in the fourth quarter. Housing starts for the year exceeded 1,000,000, compared with 931,300 in 1948. The number of multifamily units started was about one-fourth larger than in 1948.

By the end of the year, the rate of total construction activity was 11% higher that it was a year earlier, and the backlog of contracts had increased considerably. A reduction in prices and costs, the easing of credit, the expanded authority of the RFC to purchase mortgages, and the renewal of FHA authority to insure rental projects, all contributed to the upsurge.

Corporate finance reflected the changes in the economic situation. The shift from increasing inventories and increasing customer credit in 1948, to inventory reduction and a lower rate of increase in customer credit in 1949, permitted corporations to improve their financial liquidity while continuing large outlays for new plant and equipment. Liquid assets increased by 2.5 billion dollars. Short-term debt decreased by 4 billion, but long-term debt increased by about the same amount. In 1949, internal sources of corporate funds were larger than required for capital investment; in 1948, internal sources of funds amounted to only about 70% of the requirements for capital investment.

The export surplus (the excess of our exports of goods and services over our imports) was only slightly lower in total in 1949 than in 1948, but it fell sharply in the second half of the year. This resulted primarily from a sharp drop in our exports of goods and services, following severe losses of gold and dollars by the countries in the sterling area. The devaluation of foreign currencies subsequent to these losses has so far had little effect on our economy.

Government fiscal transactions in 1949 helped to stabilize the economy. Cash payments by governments—Federal, State and local—were about 8 billion dollars higher in the calendar year 1949 than in 1948. Federal cash payments alone were 6.2 billion dollars higher. Nearly half of this rise resulted from the impact of recessionary forces on such programs as unemployment compensation and agricultural price supports, and the remainder was mainly the result of larger expenditures for international and defense programs. The increase in State and local cash payments was caused chiefly by higher expenditures for schools, roads, and other public works. With increasing government payments, and with a slight decline in the gross national product, the ratio of all government payments to total output increased from about 20% in 1948 to 23½% in 1949. Cash receipts declined primarily because of the 1948 cut in Federal taxes.

As a result of these changes, the cash surplus of all governments—Federal, State, and local—which amounted to over $7 billion in the calendar year 1948, became a cash deficit of $3 billion in 1949. For the Federal Government, the result was a shift from a cash surplus of $8 billion to a cash deficit of about $1.7 billion.

Unifying Principles for Action

These facts show our tremendous economic strength. But this strength does not rest in material things alone.

If we are to continue our economic growth the major economic groups must all pull together—businessmen, wage earners, and farmers must work toward the same ends. Government, in turn, must carry out the aspirations of the whole people.

Our success will depend upon the widespread conviction that all groups have a stake in the expansion of the economy—that all will share in the benefits of progress. In the days ahead we must broaden our understanding of how the various interests of our people are interrelated.

Toward this end, I should like to point out certain principles on which we can all base our economic efforts. The more widely these principles are understood, the better able we shall be to solve our common problems and

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reconcile the interests of different economic groups. The more widely these principles are used as the basis for economic action and decision, the more rapid will be our national progress.

First. Our economy can and must continue to grow.

An expanding population and an increasingly productive labor force require constantly expanding employment opportunities and steadily rising levels of investment and consumption. Within five years, we can achieve an annual output in excess of $300 billion. The gain in national income would be equal to an average of nearly $1,000 for every family in the United States. This would greatly improve standards of living. It would go far toward our goal of the complete elimination of poverty. It would provide employment opportunities for about 64 million workers.

Such prospects are not fanciful. They are based upon our long-term record of achievement, including some years when we did not use fully our resources of plant, managerial skills, and labor force. And today, we are better equipped with these resources than ever before.

But we will not make this progress within five years unless we begin to move in that direction now. Our immediate goal for 1950 should be to regain maximum employment. This requires the reduction of unemployment to the minimum level consistent with labor mobility in a free economy. We should strive this year to reduce unemployment from 3½ million to 2 million, or 2½ million at most. This would mean about 61 million civilian jobs. It would mean stepping up our national output by about 7% above the 1949 total. These are our objectives for this year under the Employment Act. If we put forth sufficient effort, we can reach these objectives before the year's end.

Second. The benefits of growth and progress must extend to all groups.

Only in this way can the long-run welfare of any group be preserved. If any part of our economy is depressed, or fails to gain it can only serve as a drag against the gains of other parts. There is no room for the feeling that one group can prosper only at the expense of another. There is abundant opportunity for all groups to prosper together. Expansion to a $300 billion economy within five years would place $30 to $45 billion more per year in the hands of consumers for buying the needs and comforts of life. It would provide opportunity for profitable business investment in plant, equipment, and housing which might run $3 to $6 billion per year above the 1949 level. It would enable farmers to sell about 10% more food for domestic consumption.

Third. This growth will not come automatically, but requires conscious purpose and hard work.

Productivity per worker should be increased by at least 2 to 2½% a year. Labor should base its policies on the prospect of a stable and expanding economy. Businessmen should base their investment policies on confidence in growth, shape their price policies to the needs of larger markets, and proceed with vigor and ingenuity to develop new and better products of all kinds. Farmers should make full use of new technology, and make shifts in production toward those commodities most needed in a growing peacetime economy.

To promote an environment in which businessmen, labor, and farmers can act most effectively to achieve steady economic growth is a major task of the Government. It must perfect measures for helping to stabilize the economy. It must build up the natural resources which are essential to economic progress, and expand the protective measures against human insecurity. It must keep open the channels of competition, promote free collective bargaining, and encourage expanded opportunities for private initiative.

Fourth. The fiscal policy of the Federal Government must be designed to contribute to the growth of the economy.

The Federal Budget is an important part of the national economy. Wise budgetary policies can promote stability and maximum production and employment throughout the economy.

In fields such as resource development, education, health and social security, Government programs are essential elements of our economic strength. If we cut these programs below the requirements of an expanding economy, we should be weakening some of the most important factors which promote that expansion. Furthermore, we must maintain our programs for national security and international peace. These programs are the defense of the world against disaster. Upon them, our whole future depends.

Government revenue policy should take into account both the needs of sound Government finance and the needs of an expanding economy. Federal receipts should be sufficient over a period of years to balance the budget and provide a surplus for debt reduction. At the same time, the tax structure, and the changes made in it from time to time, should be such as to promote the amounts and types of investment, consumption, and saving needed for economic expansion. We should recognize that the expansion of the economy will generate additional revenues and strengthen the fiscal position of the Government.

Fifth. We must deal vigorously with trouble spots which exist in our economy even in times of general prosperity.

Special measures are needed to help low-income groups and, even more important, to provide them with better opportunities to help themselves. We must deal with the particular problems of communities or areas which are depressed, or whose economic growth has been retarded. Whenever a shortage of jobs, or lack of business opportunity, affects as many persons as it does today, it is a matter for national concern. Economic stagnation anywhere is an injury to the whole economy. We must direct specific measures to these special problems.

In the light of these guiding principles, I turn to the consideration of needed economic policies.

Economic Policies

Under our system, private and public policies go hand in hand. Private economic policies provide motive power of the economy. Public economic policies provide the framework for economic activity. Sound plans for our future growth must take account of both, and blend them to achieve maximum effectiveness.

Price and Wage Policies

The basic economic problem facing the country now is not to combat inflation. Instead it is to increase production, employment, and incomes to complete the recovery from the 1949 downturn, and to go on to the higher levels which will be made possible by a growing population and rising productivity.

Business policies concerning prices should be determined with these objectives in mind. In general, prices now seem at or near a stable level consistent with continued expansion of business activity. There are few if any major areas in which price increases would be justified under present circumstances. In some outstanding areas, price cuts are feasible and needed to maintain and expand sales. Furthermore, technological progress should in part be reflected in price reductions from time to time.

Wage adjustments are one historic method by which buying power has increased with increasing productivity. These adjustments are now in the hands of management and labor. That is where they should remain. At the same time, the participants in collective bargaining, particularly in dominant industries, should recognize that wage adjustments affect not only the employers and workers immediately engaged, but also the whole economy.

I am glad to note that the Council of Economic Advisers is encouraging joint conferences in which representatives of industry, agriculture, and labor may together study the economic principles underlying maximum economic activity. Such conferences should be productive of improved policies.

Business Investment

The large and imaginative programs of expansion and modernization of plant facilities which have been undertaken since the war represent a signal achievement by private enterprise. The trend of business investment, however, has recently been downward, and its continued decline would be a cause for real concern.

There are tremendous business opportunities in a growing economy. Not only are there more people in our country every year, needing food and clothing, homes and household equipment, and all the other goods and services of our bountiful productive system. Even more important, the results of research and experience give us every year new and better materials and productive methods; new products are constantly being developed, and whole new industries begun. All these changes are continually opening up new opportunities for productive investment.

There are, in general, ample funds available to businessmen who want to expand or build new plants, to replace obsolete equipment, or to extend their operations to new geographic areas. Banks are in a position to provide funds for sound loans, and interest rates have been declining. The flow of institutional savings, such as insurance premiums, is at record levels. Corporations as a whole are in excellent financial condition. While there are real difficulties facing some businessmen, particularly those whose enterprises are small or medium-sized, and those in certain parts of the country, as a whole there is no general financial bar to a steady expansion of business investment.

In order to reverse the present downward trend, and to achieve the rising volume of business investment consistent with an expanding economy, businessmen should grasp the opportunities which lie ahead; and should help to make the adjustments in prices and incomes which will translate potential markets into real markets. The enterprise and imagination of private businessmen will be a crucial factor in achieving the upward growth of which our economy is capable.

While our primary reliance should be placed upon private initiative, the government can also help to encourage a reversal of the downward trend of business investment. The tax recommendations I shall transmit to the Congress in the near future will, in addition to providing some net increase in revenue, propose certain changes in our tax structure which will make it more equitable and stimuate business activity.

There is a great need to meet the problems of small businessmen who cannot now obtain adequate financing on reasonable terms. New devices for encouraging private financial institutions to furnish equity capital to small and medium-sized concerns are being studied in the Executive Branch, and I hope to make recommendations to the Congress on this subject during the present session. Meanwhile, I recommend that the Reconstruction Finance Corporation be authorized to increase the maximum maturity of its business loans substantially above the present 10-year limit.

Private Housing Investment

Housing is one of the major fields in which more investment is required to meet the growing needs of our people. The level of housing construction in 1949 was only slightly higher than in 1925, despite a much larger population. The relative lag of housing technology and various outmoded practices have resulted in a wide gap between the cost of producing good housing and the vast potential market for housing to be found in the needs and desires of families of low and middle incomes.

The housing problem requires a vigorous combination of action by private enterprise and by all levels of government. Reduction of housing costs, through technical progress, better organization, and improved financing, is imperative. Aside from public subsidized housing, further methods must be found to enlarge the flow of private capital into housing. The Federal Government should supplement the comprehensive housing legislation, enacted last year, with a new program to stimulate the flow of low-cost private money into the development of middle-income housing, mainly through cooperative and other non-profit ventures.

A high level of residential construction is an integral part of a generally expanding economy, and requires not only direct stimulation of investment but also continued growth in consumer purchasing power.

Rent Control

While the preceding recommendations aim at the fundamental solution of the housing problem, the increases in rents which would follow a sudden ending of rent control would still create severe hardships in a large number of areas. It would lift the cost of living, impair consumer buying, and complicate the problem of wage adjustments. Therefore I recommend extension of rent control for another year.

Fiscal Policy

At the present time the Federal Budget shows a deficit, principally because of the drop in incomes and employment in 1949, the untimely tax reductions in 1948, and the continuing heavy demands of national security programs. As business conditions continue to improve, we should bring government receipts and expenditures into balance, and provide some surplus for debt reduction, at the earliest date consistent with the welfare of the country.

Despite the current deficit, the fiscal position of the Federal Government is basically strong. If the trend of business continues upward as it should, Federal revenue will increase. At the same time, under the policies I am recommending in the Budget, Federal expenditures should decline somewhat over the next few years. This movement toward a balanced budget should be accelerated by changes in our tax laws which will reduce present inequities, stimulate business activity, and yield a moderate amount of additional revenue.

This reliance upon a combination of three factors—an expanding economy, all reasonable reductions in expenditures, and a moderate increase in revenues through changes in the tax laws—is the wisest course toward a balanced budget. In the long run, the government's fiscal position depends upon the health of the national economy. It will not be promoted by drastic slashes in expenditures which are essential to our economic growth and to continued peace. Neither will it be promoted by tax increases so drastic as to stifle business activity. Either action would impair our chances for achieving our major national and international objectives and would threaten further recovery.

Credit Policies

To carry out the purposes of the Employment Act, the government should be equipped, as a permanent matter, with the minimum tools necessary to control the basic factors of credit expansion.

To eliminate the competitive disadvantage of Federal Reserve membership, the authority of the Board of Governors of the Federal Reserve System over bank reserve requirements should be revised. The Board should have broader powers than it now has to increase bank reserve requirements in a period of inflation. This would be a protective measure for the entire banking system, and accordingly should be applicable to all banks insured by the Federal Deposit Insurance Corporation.

The Board's authority over instalment credit ended last June. Since that time the excessive relaxation of instalment terms offered to consumers has demonstrated the need for a restoration of the Board's authority.

I have heretofore pointed out the need for more effective government supervision over speculative trading on the commodity exchanges. I recommend that the Congress grant more specific and more adequate authority for this purpose.

Farm Policy

A generally prosperous economy will do more than all else to help the farmer. As the economy grows, it can absorb an expansion of total agricultural output, provided the necessary shifts in amounts and types of different products are made to meet the needs of a changing peacetime economy. Changes in our farm policy are needed to accelerate these shifts in production, to check the decline in farm incomes which has persisted for more than a year, and to accord to farmers a fair share of the fruits of prosperity. These basic objectives of farm policy call for some shift of emphasis from the support of prices of particular commodities to the support of farm income.

There is also need for additional methods of support. Perishable products, in particular, cannot be supported satisfactorily by loans and purchases alone, and yet these are the products the expansion of whose output is most desirable. I therefore urge that support

through production payments be authorized.

Special measures are needed to aid low-income groups in agriculture. These include measures to provide credit and management aids to low-income farmers to help them enlarge and improve their farms. They include programs to provide rural electrification, rural telephones, better farm housing, and improved opportunity for medical care. In addition, we must continue to improve the education of our farm youth not only to make them more efficient farmers, but also to help some of the under-employed people in agriculture find useful work in other occupations.

Increased emphasis should be given to encouragement of types of farming which are most needed. Research and education, and conservation and credit programs, as well as the government's support of farm prices and farm incomes, should be directed toward this end.

Developmental Programs and Community Services

After the restraints imposed by war and by postwar inflation, Federal programs for resource development, transportation, education, and health are just beginning to adjust to the needs of an expanding national economy. Even now, the requirements of national security, international aid, and veterans' adjustments are so urgent and so large that progress in developmental programs and community services must necessarily be limited to gradual advancement at a rate below the genuine need.

Nevertheless, we are continuing to expand our investment in the development of our rivers for flood control, navigation, reclamation, and electric power, in the expansion of our highways, and in the development of atomic energy. I again urge early authorization of the St. Lawrence seaway and power project, which should be started as soon as plans can be completed. In most of our major river valleys we do not have satisfactory means for preparing integrated programs of development. I have already recommended, and I again urge, that the Congress authorize the consolidation of a number of Federal activities in the Pacific Northwest into a Columbia Valley Administration.

Present deficiencies in education and health are so compelling that I repeat my recommendation for new programs. Expansion of public health services, and of enrollments in schools of medicine, nursing, dentistry, and public health, should be started now. The growing number of children of school age cannot be permitted to delay their education. I therefore urge the prompt enactment of aid to elementary and secondary education, and the provision of funds for a survey to determine the extent of the need for school construction. There should also be authorized a limited program to assist capable young people who are now financially unable to secure the higher education essential to the full development of their talents.

Many of the existing procurement, contruction, and loan programs of the Federal Government can be adapted, to some extent, to alleviate serious unemployment in particular local areas. The program initiated for this purpose in the Summer of 1949 has shown some good results and it will be continued. It is evident, however, that some localities are faced with long-term rather than temporary difficulties and that effective programs to provide permanent solutions need to be worked out. The Federal Government will continue to use all available resources for the aid of such distressed areas and, cooperating with State and local agencies and private groups, will assist in preparing programs adjusted to the long-range problems and opportunities of those areas.

Social Security

In our growing economy, there can be no excuse for failure to develop an adequate system for protecting our citizens against economic insecurity. As we produce more, we can and should make more adequate provision for the aged, those who cannot find work, and others in our society who are in need.

I urge the Congress to act promptly on the recommendations I have made for the extension and improvement of social security. We must move rapidly toward a comprehensive social insurance system protecting nearly all workers—including those employed in farming — and their families against the risks of old age, unemployment, disability, death of the family wage-earner and illness. The costs of such a system, when measured against the growing output of our economy, are well within our capacity to pay.

The present programs of social security are grossly inadequate. Because of the limited coverage of the present law, and the exhaustion of benefits by many workers, one-third of the unemployed are now receiving no unemployment insurance benefits, and in some areas the proportion approaches two-thirds. Many communities provide no public funds for the relief of jobless workers and their families. There are also several million disabled workers, many with families to support, who are not eligible for public insurance benefits. In some places, they do not even receive public relief. Only 650,000 of the millions of bereaved or broken families with very low incomes are receiving survivors insurance. Only 30% of the aged population are eligible for social insurance benefits, which are so meager that few can retire voluntarily. Needed medical care is denied to millions of our citizens because they have no access to systematic and adequate methods of meeting the cost.

The current inadequacy of the social insurance programs is sharply reflected in the disproportionate load now being borne by public assistance programs. Increasing numbers of the aged, the disabled, and the unemployed have been forced to resort to public assistance. This distorts the original intent of the Social Security Act that people are entitled to security as a matter of right. The burden of public assistance is straining the fiscal capacities of State and local governments. While enactment of proposed social insurance programs will alleviate this problem in the future, provision must be made for dealing with the problem in the meantime. I therefore urge enactment of the proposals which I submitted to the Congress last Spring for the extension and improvement of the program of Federal grants to States for public assistance.

International Economic Programs

We are now in a transitional stage in the development of our international economic policies. Our short-run programs of aid to friendly countries abroad have begun to bear fruit in increased production, expanding trade, and rising living standards. At the same time, the long-range nature of the problems of world production and trade has emerged more clearly, and the need for the United States to play a continuing role in world development through capital and technical assistance has become evident.

The progress already made toward achieving the objectives of the European recovery program and of other short-run aid programs should prompt the continuation of these programs on a basis commensurate with need. To cripple them now would imperil past progress and risk the waste of expenditures already made. I recommend that these programs be extended on a scale sufficient to accomplish the purposes for which they were established.

In the years ahead, we must lay increasing emphasis upon long-run international economic programs. We need to move vigorously toward a word-wide increase of international trade. This will result in larger imports into our country, which will assist other countries to earn the dollars they need, and will at the same time increase our own standard of living. An immediate step in this direction is to approve promptly the proposed Charter for the International Trade Organization, which has been negotiated to establish a code of fair trade practice and a means for steadily improving international commercial relations.

Even the maximum feasible reduction of barriers to world trade would not alone make possible the continued increases in world production and living standards which are essential to world peace. Such reductions are of little immediate benefit to the underdeveloped areas of the world, which cannot produce enough to achieve an export surplus and build up their productive capital. These areas urgently need improved technical knowledge and increased capital investment. The aim of the Point Four program for assistance to underdeveloped countries is to help meet these needs.

To make the most effective use of invested capital, underdeveloped countries require technical assistance. Hearings have already been held by the Congress on the legislation I have recommended to stimulate the interchange of technical assistance. I urge action on this proposal as soon as possible.

The United States has sufficient productive strength to provide capital for investment in productive developments abroad. In order to encourage the private investment of United States funds abroad, I urge the Congress to act promptly on the legislation now before it to authorize the Export-Import Bank to guarantee such investments against certain risks peculiar to foreign investment. Through the negotiation of treaties, the Government is moving to improve conditions for investment abroad and assure protection for the legitimate interests of United States investors. It will also continue to be the policy of the Government to encourage American investment abroad only when it is carried on in a way that protects the interests of the people in the foreign countries concerned.

I recommend also that certain provisions of the tax laws governing the taxation of income from foreign investments be revised in order to stimulate the flow of American capital abroad.

In addition to its direct contribution to increased production, the technical assistance program should prepare the way for, and stimulate the preparation of, concrete development projects, on the basis of which an increasing volume of private and public investment can be made. It is unlikely that private funds, including those invested through the International Bank, and the present resources of the Export-Import Bank, will be sufficient to meet the need for investment abroad. It will probably become necessary at a later time to increase the lending authority of the Export-Import Bank.

Summary of Legislative Recommendations

I summarize below the legislative recommendations contained in this Economic Report, and urge that the Congress enact them into law:

(1) Make some revisions in the tax structure to reduce present inequities, stimulate business activity, and yield a moderate amount of net additional revenue. My specific recommendations on taxes will be transmitted to the Congress at an eraly date.

(2) Enact a new program to stimulate private investment in housing for middle-income families.

(3) Substantially increase the maximum maturity period for business loans made by the Reconstruction Finance Corporation.

(4) Improve the protection of farm incomes and encourage needed shifts in farm production by authorization of production payments and other changes in present legislation.

(5) Establish a Columbia Valley Administration, and authorize the St. Lawrence seaway and power project.

(6) Provide for Federal aid to elementary and secondary education, for a limited program of aid in support of higher education for capable students, for aid to medical education, for the improvement of local public health services, and grants to States for surveys of the need for school construction.

(7) Extend and liberalize the social security structure by improving old-age, survivors, and unemployment insurance, enacting disability and health insurance, and expanding Federal grants-in-aid to States for public assistance.

(8) Extend rent control for another year.

(9) Continue the foreign recovery programs on a basis commensurable with need.

(10) Approve the Charter for the International Trade Organization.

(11) Authorize the program for technical assistance to underdeveloped countries, and for guarantees by the Export-Import Bank against risks peculiar to private investment abroad; and revise certain provisions in the tax laws governing the taxation of income from foreign investments.

(12) Provide additional authority over banking reserves to the Board of Governors of the Federal Reserve System; extend that authority to all banks insured by the Federal Deposit Insurance Corporation; and restore the Board's authority to regulate consumer credit. Provide authority to regulate speculation on the commodity exchanges.

* * *

In the Message on the State of the Union, I have stressed the fateful role which the United States has come to occupy in the progress of human destiny. Our responsibilities are already determined by the course of world events. But how well we measure up to these responsibilities remains in our own hands.

Moral leadership comes first, as we seek to inspire free men everywhere with confidence in their cause. But history proves that many great moral purposes have failed or faltered because the material strength to support them was lacking. The economic power of the United States, at its full potential, is the keystone of this support.

The Congress foresaw this when it gave our national economic policy the degree of central significance accorded to it under the Employment Act of 1946. As the deliberations of the United Nations demonstrate, other nations recognize the overwhelming importance to the cause of freedom of wise economic policies and full employment.

Our economic situation today is good, and it can be better. The lessons of the past and the magnificent challenge of the future continue to spur us on. For all to thrive and prosper together, all must work together—with mutual understanding and common purposes. That is the spirit of our democracy. That is the spirit in which I transmit these recommendations to the Congress, and to all those whose actions affect our economy.

Reports Nation's Retail Stores Have Mixed Opinions on 1950 Business

Charles G. Nichols, Chairman of National Retail Dry Goods Association, gives results of survey of views on 1950 outlook.

Charles G. Nichols, Chairman of the Board of Directors of the National Retail Dry Goods Association, made public on Jan. 10 results of an NRDGA survey on the outlook for 1950 business in the nation's department and specialty stores. The survey which was compiled and tabulated by NRDGA's Controllers' Congress, and in which over 250 department and specialty stores

Charles G. Nichols

with an annual sales volume totaling $2 billion participated, indicates that store executives from coast to coast expect only a moderate change in their dollar sales volume for the coming year in comparison to 1949.

The report shows that dollar sales increases up to 10% are anticipated by 24% of the reporting stores, with no change expected by an additional 34%, and with 42% foreseeing a slight decline in dollar business. Compared to 1949, 46% of the stores surveyed anticipate an increase in unit sales ranging from 5% to 20%, while 33% indicate no change, and 21% expect a slight decline from the level achieved during the previous year.

That management is determined to halt the trend of climbing markdowns is evidenced by the fact that 55% of the stores expect to lower markdowns by 5% to 20%, with 35% of the reporting stores not anticipating any change in this operating ratio. As an aid to their markdown control, 53% of the stores are planning to reduce inventories from 5% to 10% from the 1949 level. Only 9% expect slight inventory increases, and 38% foresee no change in the amount of goods carried.

Though about 50% of the stores replying to the survey foresee little change in the amount of dollars expended for selling costs, one-fourth of the reporting stores anticipate a slight increase in these expenditures with the remaining one-fourth looking forward to a slight reduction. Much the same pattern is observed in the case of non-selling expenditures.

A spirit of optimism over the chances for bettering 1949 profit achievements during the coming year is expressed by 42% of the retailers contributing to the survey, while 30% view profit prospects during 1950 less favorably, anticipating a decline in net profits. In this connection, no change in profit performance is expected by 28% of the responding stores.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Jan. 15	97.2	96.1	94.1	99.3
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 15	1,791,900	1,771,600	1,734,700	1,830,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Dec. 31	4,995,500	4,995,450	5,105,950	5,664,600
Crude runs to stills—daily average (bbls.)	Dec. 31	†5,626,000	5,482,000	5,329,000	5,958,000
Gasoline output (bbls.)	Dec. 31	19,051,000	18,045,000	18,128,000	18,859,000
Kerosene output (bbls.)	Dec. 31	2,476,000	2,525,900	2,209,000	2,526,000
Gas, oil, and distillate fuel oil output (bbls.)	Dec. 31	7,591,000	7,335,000	6,766,000	8,235,000
Residual fuel oil output (bbls.)	Dec. 31	8,444,000	8,046,000	8,342,000	10,012,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 31	113,497,000	110,164,000	105,264,000	104,063,000
Kerosene (bbls.) at	Dec. 31	20,838,000	*20,894,000	25,151,000	24,258,000
Gas, oil, and distillate fuel oil (bbls.) at	Dec. 31	77,801,000	78,662,000	89,448,000	72,495,000
Residual fuel oil (bbls.) at	Dec. 31	61,675,000	61,647,000	66,271,000	63,642,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 31	§495,634	§623,303	§693,923	584,610
Revenue freight received from connections (number of cars)	Dec. 31	§480,233	§568,427	§599,183	514,539
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Jan. 5	$323,398,000	$66,858,000	$302,115,000	$124,485,000
Private construction	Jan. 5	54,479,000	30,933,000	78,490,000	45,627,000
Public construction	Jan. 5	268,919,000	35,925,000	223,625,000	78,858,000
State and municipal	Jan. 5	52,837,000	29,421,000	52,942,000	44,628,000
Federal	Jan. 5	216,082,000	6,504,000	170,683,000	34,230,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 31	6,255,000	9,040,000	9,250,000	9,029,000
Pennsylvania anthracite (tons)	Dec. 31	408,000	616,000	1,017,000	932,000
Beehive coke (tons)	Dec. 31	20,900	*20,600	12,100	130,100
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 31	199	*541	449	204
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 7	5,695,372	5,492,674	5,881,360	5,741,663
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Jan. 5	161	109	191	128
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 3	‡3.837c	3.837c	3.705c	3.720c
Pig iron (per gross ton)	Jan. 3	$45.88	$45.88	$45.88	$46.91
Scrap steel (per gross ton)	Jan. 3	$26.25	$26.58	$27.92	$43.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 4	18.200c	18.200c	18.200c	23.200c
Export refinery at	Jan. 4	18.425c	18.425c	18.425c	23.425c
Straits tin (New York) at	Jan. 4	77.500c	78.000c	81.000c	103.000c
Lead (New York) at	Jan. 4	12.000c	12.900c	12.000c	21.500c
Lead (St. Louis) at	Jan. 4	11.800c	11.800c	11.800c	21.300c
Zinc (East St. Louis) at	Jan. 4	9.775c	9.750c	9.750c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Jan. 10	104.54	104.53	104.26	101.04
Average corporate	Jan. 10	116.41	116.22	115.63	112.56
Aaa	Jan. 10	121.88	121.46	121.25	118.60
Aa	Jan. 10	120.02	120.02	119.61	116.80
A	Jan. 10	116.02	115.82	115.04	111.25
Baa	Jan. 10	108.70	108.52	107.27	104.48
Railroad Group	Jan. 10	112.00	111.62	110.15	107.98
Public Utilities Group	Jan. 10	117.20	117.20	117.20	113.12
Industrials Group	Jan. 10	120.43	120.22	119.82	117.00
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Jan. 10	2.17	2.17	2.19	2.42
Average corporate	Jan. 10	2.83	2.84	2.87	3.03
Aaa	Jan. 10	2.56	2.58	2.59	2.72
Aa	Jan. 10	2.65	2.65	2.67	2.81
A	Jan. 10	2.85	2.86	2.90	3.10
Baa	Jan. 10	3.24	3.25	3.32	3.48
Railroad Group	Jan. 10	3.06	3.08	3.16	3.28
Public Utilities Group	Jan. 10	2.79	2.79	2.79	3.00
Industrials Group	Jan. 10	2.63	2.64	2.66	2.80
MOODY'S COMMODITY INDEX	Jan. 10	350.0	346.7	346.0	394.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 31	147,044	153,405	259,736	116,925
Production (tons)	Dec. 31	111,463	200,595	201,766	81,780
Percentage of activity	Dec. 31	53	92	93	46
Unfilled orders (tons) at	Dec. 31	359,271	327,641	429,785	318,673
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Jan. 6	124.9	124.9	124.9	142.6
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—	Dec. 24	26,764	28,415	19,299	20,561
Number of orders	Dec. 24	629,727	876,698	579,308	596,935
Number of shares	Dec. 24	$25,535,429	$34,525,262	$23,143,575	$22,907,355
Dollar value					
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Dec. 24	26,269	38,412	22,436	20,422
Customers' short sales	Dec. 24	130	200	203	61
Customers' other sales	Dec. 24	26,139	38,212	22,233	20,361
Number of shares—Customers' total sales	Dec. 24	757,493	1,075,662	613,731	551,474
Customers' short sales	Dec. 24	4,703	7,708	7,829	2,380
Customers' other sales	Dec. 24	752,790	1,067,954	605,902	549,094
Dollar value	Dec. 24	$27,090,706	$36,658,497	$21,968,358	$18,510,087
Round-lot sales by dealers—					
Number of shares—Total sales	Dec. 24	301,540	427,730	244,110	154,950
Short sales	Dec. 24	------	------	------	------
Other sales	Dec. 24	301,540	427,730	244,110	154,950
Round-lot purchases by dealers—					
Number of shares	Dec. 24	174,590	241,460	180,340	209,860
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Jan. 3	150.7	151.1	151.0	161.7
Farm products	Jan. 3	153.2	*155.4	154.0	177.4
Foods	Jan. 3	154.7	*155.8	156.6	168.9
All commodities other than farm and foods	Jan. 3	145.3	*145.5	145.1	152.7
Textile products	Jan. 3	137.4	137.5	137.5	146.3
Fuel and lighting materials	Jan. 3	130.8	*130.6	130.3	137.2
Metals and metal products	Jan. 3	169.5	*169.8	168.9	175.3
Building Materials	Jan. 3	190.3	*190.3	189.6	199.8
All other	Jan. 3	115.5	115.4	115.8	128.8
Special indexes—					
Grains	Jan. 3	160.4	159.8	161.3	170.3
Livestock	Jan. 3	184.9	188.2	186.5	209.9
Meats	Jan. 3	204.7	203.8	209.1	225.9
Hides and skins	Jan. 3	192.7	201.0	203.3	192.8

*Revised figure. †Includes 520,000 barrels of foreign crude runs. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. §Reflects effect of five-day week effective Sept. 1, 1949.

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. — U. S. DEPT. OF LABOR — Month of October (000's omitted):			
All building construction	$678,828	*$722,056	$596,403
New residential	399,837	*422,402	274,909
New nonresidential	195,793	*215,605	239,614
Additions, alterations, etc.	83,198	*84,049	81,880
BUSINESS INCORPORATIONS, NEW IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of November	6,755	6,877	6,413
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of December:			
Total U. S. construction	$863,561,000	$589,224,000	$843,544,000
Private construction	380,433,000	312,227,000	505,899,000
Public construction	483,128,000	276,997,000	337,645,000
State and Municipal	228,053,000	235,223,000	265,901,000
Federal	255,075,000	41,774,000	71,744,000
COAL OUTPUT (BUREAU OF MINES)—Month of October:			
Bituminous coal and lignite (net tons)	10,550,000	19,380,000	53,447,000
Pennsylvania anthracite (net tons)	4,985,000	*2,112,000	4,969,000
Beehive coke (net tons)	10,000	*30,000	651,500
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of September:			
Shipments (short tons)	38,417	*95,794	*120,500
Unfilled orders at end of month (short tons)	294,240	311,923	629,660
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939 = 100—As of Nov. 15:			
All items	168.6	168.5	172.2
All foods	200.8	200.6	207.5
Cereals and bakery products	169.2	169.1	169.9
Meats	229.1	235.1	246.7
Dairy products	186.4	186.7	199.5
Eggs	207.8	227.8	244.3
Fruits and vegetables	202.0	194.5	189.4
Beverages	265.3	213.8	206.4
Fats and oils	139.7	144.5	189.4
Sugar and sweets	178.9	177.5	173.3
Clothing	186.3	186.8	201.4
Rent	122.0	121.5	118.8
Fuel, electricity and refrigerators	139.1	138.4	137.9
Gas and electricity	97.0	97.0	95.4
Other fuels	190.0	188.3	191.6
Ice	146.6	145.6	138.0
Housefurnishings	185.4	185.2	198.7
Miscellaneous	154.9	155.2	153.9
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of November:			
Cotton Seed—			
Received at mills (tons)	1,322,121	1,382,294	975,237
Crushed (tons)	785,190	748,269	710,592
Stocks (tons) Nov. 30	2,111,751	1,574,820	2,129,379
Crude Oil—			
Stocks (pounds) Nov. 30	162,355,000	123,462,000	141,085,000
Produced (pounds)	252,640,000	242,687,000	227,956,000
Shipped (pounds)	206,672,000	191,572,000	221,552,000
Refined Oil—			
Stocks (pounds) Nov. 30	174,981,000	125,176,000	120,774,000
Produced (pounds)	188,938,000	178,666,000	177,824,000
Consumption (pounds)	144,799,000	129,424,000	122,772,000
Cake and Meal—			
Stocks (tons) Nov. 30	123,518	116,912	78,427
Produced (tons)	355,146	334,030	322,572
Shipped (tons)	348,540	315,194	324,391
Hulls—			
Stocks (tons) Nov. 30	120,624	124,264	74,606
Produced (tons)	178,579	174,448	161,854
Shipped (tons)	182,219	161,578	158,044
Linters—running bales—			
Stocks Nov. 30	240,751	186,970	179,331
Produced	234,903	226,922	219,480
Shipped	181,122	180,123	210,991
Hull Fiber (1,000-lb. bales)—			
Stocks Nov. 30	1,622	1,842	1,655
Produced	1,582	1,781	3,999
Shipped	1,802	1,367	4,282
Motes, grabbots, etc. (1,000-bales)—			
Stocks Nov. 30	6,661	5,869	17,215
Produced	3,892	3,611	6,537
Shipped	3,100	2,603	3,787
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-39 AVERAGE = 100—Month of November:			
Sales (average monthly), unadjusted	287	248	*294
Sales (average daily), unadjusted	293	243	*299
Sales (average daily), seasonally adjusted	226	219	*230
Stocks, unadjusted as of Nov. 30	255	244	*279
Stocks seasonally adjusted as of Nov. 30	221	216	242
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of November:			
Earnings—			
All manufacturing	$54.45	*$55.26	$54.47
Durable goods	56.85	*58.03	58.53
Nondurable goods	59.06	*59.71	50.17
Hours—			
All manufacturing	39.2	*39.7	39.7
Durable goods	39.1	*39.8	40.3
Nondurable goods	39.6	*40.1	39.1
Hourly earnings—			
All manufacturing	$1.389	*$1.392	$1.371
Durable goods	1.454	*1.458	1.452
Nondurable goods	1.484	*1.489	1.282
MONEY IN CIRCULATION—TREASURY DEPT. As of November 30 (000's omitted)	$27,543,493	$27,406,811	$28,331,043
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Dec.:			
Industrials (125)	6.58	6.86	6.78
Railroads (25)	7.36	8.11	7.67
Utilities (25)	5.86	5.92	6.09
Banks (15)	4.54	4.61	4.74
Insurance (10)	3.18	3.00	3.34
Average yield (200)	6.36	6.62	6.52
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Dec. 31	$257,160,110	$257,011,328	$252,854,401
General fund balance	4,679,048	4,421,935	4,208,411
Computed annual rate	2.208%	2.222%	2.215%
Net debt	$252,481,062	$252,589,393	$248,645,990

*Revised figure.

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The Longer-Term Price Trend

merchandise in which it operates, it seems desirable to attempt a general survey of the longer-term trend of the price level. In a world of inconvertible paper currencies and multifarious interventions by government to restrain, restrict and often destroy free markets, one cannot undertake such a task with any great degree of confidence in the soundness of his appraisal of the economic and political forces that will shape the future course of prices. But intelligent risk-taking requires some judgment about the longer trends and there is danger in too complacent reliance on nearby trends.

Previous Postwar Price Trends

While we cannot blindly accept historical precedents as a guide to the postwar behavior of commodity prices, the broad similarities deserve our careful consideration. For the earlier years of national history, the price data are not too dependable; but the available scanty evidence indicates that about six years after the American Revolution prices returned to prewar levels. After the War of 1812, the period was about five years; after the Civil War, about 12 years; and after World War I, it took 12 years to get back to 1916 price levels. Fourteen years after the close of World War I, or in 1932, the general price level was somewhat lower than in was in 1914.

Precedent Suggests Downtrend

It may be of passing interest to note that after great wars, there is usually much contemporary business opinion to the effect that a return to prewar prices is a practical impossibility. Increased money supplies, firmness of wage rates and other factors receive varying degrees of emphasis in comments of businessmen on the likelihood of continued high prices. It would be a serious mistake, however, to assume that there are no important differences between present and previous postwar conditions. Nevertheless, the historical evidence strongly suggests that if we do not mismanage our monetary and fiscal affairs, the longer-term trend of prices is likely to be moderately downward over a considerable period of years.

Common Causes of Downtrends

The longer downtrends of postwar prices seem to have more or less common causes. Great wars cause enormous economic dislocations which are clearly portrayed by the wide distortions in relative prices. Wartime distortions may be increased during the postwar boom, or needed corrections may be delayed, but eventually strong economic pressures develop which force the changes needed to restore an acceptable relationship among prices. Under war conditions, the dispersion of prices above and below the general average becomes very wide. With the return of more normal conditions, the spread becomes more narrow.

Some Price History

If we study the relative movements of prices of raw materials, semi-finished, and finished products over a long period, the expansion and contraction of the zone of dispersion is clearly evident. During most of the period from 1915 to 1921, prices of semi-manufactured articles were very high in relation to the general average and to the other two groups. This group of prices was again "out-of-line" during part of 1923 and 1924. In the early 'thirties, the raw materials group fell to low levels. During World War II, the raw materials group was relatively high and semi-finished items were relatively low. While there has been come decline in raw materials prices since 1946, this group is still high in relation to the other groups. The raw materials group includes all farm commodities and it is perhaps unnecessary to add that agricultural price supports make this group artificially high.

Consumer Price Trends After Both World Wars

Similar study of the components of the official consumer price index shows that by 1920, prices of foods, apparel and home furnishings were seriously out-of-line with the general average. In succeeding years, the trend was toward a more reasonable balance. During World War II, these three components again rose disproportionately. Five years after the end of this war, apparel, food and housefurnishings are still abnormally high. It is reasonable to expect that the pressure on these prices will continue until the extreme distortions are corrected.

Postwar Production Technique Improvement

Another common cause of the longer downward trend of postwar prices can be found in the improvement of production methods and attendant lower costs of production. During our Civil War, we witnessed great expansion of factory production and the beginnings of those processes that we were later to describe as "mass production." After that war, we found that goods produced by the older, high-cost methods could not be marketed in volume; and it became imperative to find new and cheaper methods of production. We also learned new production techniques during World War I and after the 1920 debacle, we finally achieved our economic salvation by greatly expanded production at lower costs. We now face the same general problem once again and we will undoubtedly solve it again in much the same way. The obstacles are now more difficult, but they must be surmounted if we are to have an expanding economy.

Postwar Price Adaptation

These downward postwar trends develop very naturally. They may be simply explained. We know that when a new product is introduced, the price is often so high that the market is limited. After the top levels are skimmed, we are forced to find new methods of producing at lower costs to tap broader markets. The process continues until maximum potentials are developed. In much the same way, high postwar prices restrict markets. If they persist, the end result is declining sales and loss of profit. Then we go to work to find better methods of producing the same or improved products at costs which permit lower selling prices. If we cling too long to prices that have ceased to be productive, we may precipitate drastic economic readjustments. Such has often been the case in the past, but perhaps our better present-day knowledge of basic trends may enable us to prepare in advance for such possible economic disturbances and to meet them with a minimum of hardship as and when they may occur.

Price Adjustment Difficulties

The successive steps in price adaptation after postwar replacement booms have waned are not, of course, as simple as the previous analogy may seem to indicate. They are after extremely difficult and costly. Price adjustments may be reductions on standard products, slight revisions with new designs, restoration of qualities removed in the price inflation, or the results may be secured in various other ways. Reduction of costs is not easy when raw materials remain out-of-line and when serious obstacles must be surmounted before unit labor costs can be lowered. Many new and higher fixed costs are acquired in periods of expansion and they yield slowly to economic pressures. Moreover, all these readjustments are conditioned by the need for adequate profit. It takes time to make them; and the process of adaptation may create considerable business unsettlement.

Natural Aids to Lower Prices

It should be pointed out that the search for more productive price levels is greatly aided by the growth of population which creates demands for increasing quantities of goods. Moreover, customer wants broaden in character and variety as the years pass. The luxuries of today become the necessities of tomorrow. The natural growth of markets make possible larger and larger physical consumption and eases the transition to lower and more productive price levels. We are blessed with a dynamic economy and a resourceful people. If we look ahead to the minimum requirements of our population in the next five or ten years, there is little reason to be gloomy about the prospects of doing a much greater volume of business on a lower price level and at an adequate profit.

The Labor Cost Argument

There are, of course, other factors that cast doubt on the prospects for lower and more productive prices. It is forcefully argued that labor costs are very high; and that the power of organized labor is so great that any downward adjustment of unit labor costs is a practical impossibility. While conditions are now considerably changed, it is interesting to note that this argument was frequently made during the boom that followed World War I. In 1920, largely as a result of overtime work, average hourly earnings for all industry reached a new high. They declined slightly in the next two years and then renewed their advance. By 1925, average hourly earnings were greater than they were in 1920. Except for the years of extreme depression, they have continued to advance.

High Production and High Wages

It is obvious that these increases in hourly earnings did not arise to any large extent from more intensive application of the individual to his job. They came out of increased production at lower prices. We got that added production by better industrial organization, better operating techniques and better machines. Few who are familiar with the present state of industrial equipment throughout industry believe that there is no further opportunity for cheaper production. And, similarly, our industrial engineers do not generally believe that we have exhausted other possibilities. It may be added that in our own craft the door is not closed to further cost reduction.

Wage Demands and Jobs

There is no logic in wage demands that result in restricted markets and reduce work opportunities. Extreme demands cannot be met out of profits because profits in the real sense are not excessive and they vanish when rapidly advancing costs destroy existing markets and prevent expanded output. Our more enlightened labor leaders know that there is no net gain in direct and "fringe" wage demands that reduce production. We can at least hope for the kind of leadership in the labor movement and elsewhere which clearly understands that no one eats more by getting a larger and larger share of a smaller and smaller pie. And very probably we often grossly underrate the good sense of the average American worker.

The Inflation Argument

But the strongest argument against the historical probability of declining postwar prices is that inflationary trends are now so strong that higher prices are more or less inevitable. Advocates of this view cite the huge debt, taxes that stifle incentives, the threefold increase in the monetary supply, the unrestrained growth of public spending, the renewed resort to deficit financing, artificial maintenance of agricultural prices despite the "revolution" in production methods, continued encroachment of government upon private enterprise, the declining sense of responsibility of the individual for the economic security of himself and his family, the vast welfare proposals, and the persistent political presumption of an "inexhaustible public purse." They also charge that needed retrenchment is shelved on grounds of political expendiency. And once again we are debating a return to gold convertibility as a partial safeguard to the purchasing power of the dollar; and denying intent to tinker with the price of gold.

More Production and Less Tax Burden

It is not possible here to explore the various facets of this inflation argument. In a general way, it may suffice to say that we cannot trade indefinitely upon the confidence of the people in their money; and that substantial retrenchment cannot safely be long postponed. But even if we retrench sufficiently to avoid deficit financing, we will still be bearing a crushing tax burden. Much of that burden, of course, is an inevitable heritage of the war. We can only reduce its weight by a greatly enlarged production. We need prices and profit incentives that will make that production possible.

Taxes and Prices

Government has no funds except what it takes from the people by taxation, or borrows directly or indirectly from their savings, or creates by skillful fiat. As we have previously remarked to this group, the simple truth is that the preponderant part of governmental costs can neither be shifted to corporations nor to the "other fellow." They fall upon the whole people. They are in large measure pyramided through the whole gamut of production and distribution. For the most part, they are paid for in the form of higher prices at the points of consumption. If we are to secure the kind of prices that will stimulate production and provide sufficient jobs at adequate wages for a growing population, we gravely need prompt and intelligent reduction of governmental costs. The great objective of responsible government should be to aid in increasing the purchasing power of all its citizens. That aid cannot be given by maintaining and increasing governmental costs.

Long-Term Downtrend Still Good Guess

It is extremely difficult to form a sound judgment of net effect of the various economic and political forces that now bear upon the future course of prices. Perhaps the best guess that can now be made is that the longer-term trend at this time is still toward lower price levels. There is now and will continue to be rather vigorous dissent from this view, but inflation with all its attendant economic and social misery is not necessarily inevitable. Very probably we will not persist in the economic follies that now threaten to decrease the purchasing power of the dollar. We must depend upon the good sense of the American people to apply the correctives before it is too late. In the past, we have always displayed an innate genius for solving difficult economic and social problems. We will doubtless do so again.

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How Standard Brands Does Its Selling Job

States. He started apologizing and excusing himself, and Julius Fleischmann said, "That's not what I'm talking about. Don't ever put our system second to anything in this country!"

So, we felt, and we still feel that a real distributing system was built up and, certainly, it was a far cry from that one horse and wagon that started out in Cincinnati, Ohio, some 13 or 15 years earlier.

The Royal Baking Powder Co., one of the companies that merged, in 1929, with the Fleischmann company, had its beginning at about the same time. It began out in a little town in Indiana, and it was a very successful company when it came into the merger in 1929, but it was having much difficulty on account of the distributing situation.

It was again, one product, and in 1929 things had changed materially in so far as costs were concerned. Their problem was one of expense.

But its inception, or its beginning, took place back in Indiana in the early sixties, and that was the time when the housewives, or the homemakers, used to use baking soda, used to buy baking soda or *saleratus* and cream of tartar which they took home and mixed in order to make their own baking powder, which leavened their biscuits and cakes and the like, in their homes.

Well, there were two druggists in Fort Wayne, Indiana, and they decided that if they sold these ingredients and the housewives took them home and mixed them and used them, why not mix them for the housewives?

They did that, and that is when Royal Baking Powder was started. That was back in about 1866 that these druggists, partners, started that and one decided that there was no future in the baking powder business. He sold the baking powder business to his partner and he kept the drug store. The partner took the Royal Baking Powder business and, in 1899, it had grown to such a size that they moved their general offices to Cincinnati. In 1929, they were one of the companies that merged with the Fleischmann company, making Standard Brands Incorporated, and during that period they developed a line of very fine gelatin desserts which is part of the line today that is sold by Standard Brands Incorporated.

Now, the other company that came into the merger in 1929, came into Standard Brands, was Chase and Sanborn Tea and Coffee Co. Back in about the same days, during the Civil War period, there was a man by the name of Caleb Chase, up in a little town in Massachusetts. He was working in a general store, up there, and he had always had visions of getting

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How Standard Brands Does Its Selling Job

into big business some day, to be a businessman on a nation-wide scale.

In 1864, he decided that what America needed most was a better cup of coffee, so he went down to Boston and started dabbling in the coffee business, and he learned something about it. He had not been there too long before another gentleman, by the name of James F. Sanborn, who was selling seed off of a wagon, up in Eastern Maine somewhere, decided that he, too, wanted to get into business, in general, over the country.

He landed in Boston and met Caleb Chase. They decided, right then and there, that they would get together and go into the coffee business on a good basis. One of them went down to the coffee-growing countries and spent a good bit of time down there, learning about coffee-growing and buying, and so forth, and the other stayed up here, tending to the domestic affairs.

In 1878, some eight or ten years after they had got together, they produced, or sold, fresh roasted coffee in the first can that coffee ever was sold in. That was in 1878, and they called it Seal-Brand Coffee and today the top-grade consumer coffee of Standard Brands Incorporated is still known as Seal-Brand Coffee, the Chase and Sanborn Seal-Brand Coffee.

Their business, before merging with Standard Brands Incorporated, was more or less of a localized business, in and around Boston, in and around Chicago or the Middle West, and in Montreal, Canada. Today, of course, it is nationally-distributed, through the Standard Brand setup.

Now, those are the three companies that made up Standard Brands Incorporated in 1929. All three companies, as I have pointed out, had a start during the Civil War days, and at about the same time. They started in somewhat a similar way and in 1929 all three companies found themselves in the same position, somewhat, in so far as distribution cost was concerned.

They all had fine products, they all had good reputations, they all had good people. But they were having some difficulty, particularly Chase and Sanborn, and Royal Baking Powder, in distributing their products on a national basis, and the Fleischmann company was beginning to get into difficulty because of rising costs in their distribution system on the food products that they had, which were yeast, and two or three other bakery products which we will talk about in just a moment.

So, they came together at a very opportune time for all three companies and, from that beginning, gentlemen, a company, Standard Brands, as it exists today, has grown—and I think you will agree, that it had quite a growth in those comparatively few years—it has grown to one of the largest food-manufacturing and distributing companies in the country, as a matter of fact, in its own class. I mean, in the class or type of business it does, it is the second largest in the country.

The sales approximate $300,000,000 a year. It has a payroll of some $36 to $37 million a year. It has approximately 11,000 employees. It has 40 plants scattered over the United States, and 13 plants in foreign lands. It does business all over the world, practically speaking, Latin America, Africa, England, and all over.

So, from these meagre beginnings, back in the Civil War days, and after the merger in 1929, I believe that you will agree that it has developed a pretty good position for itself in American industry.

Now, what is the make-up of Standard Brands Incorporated, as it exists today? Well, the make-up, simply stated, is that we have a parent company—which I would like to set aside for just a moment. And in addition to that, we have the Fleischmann Malting Co.

Now, the Fleischmann Malting Co. is one of the largest malting companies in the world, and it handles grain malt, most of it barley. Briefly, "malt" is grain which has been sprouted and dried under scientifically controlled conditions. It is sold to distillers and brewers for their use all over the country. Some of this malt is used in the manufacture of malt syrup products which are sold directly by Standard Brands Incorporated.

We have our International Division, that sells the same products that you are going to hear me talk about in just a minute, in foreign lands, in Canada, England, South Africa and Latin America, and so forth. Then, we have our Fleischmann Distilling Corp. which handles, as your Chairman mentioned earlier, products familiar to all of us. Black and White Scotch Whiskey, Fleischmann's Gin, Bourbon Whiskies, Straight Whiskies and different kinds of rum.

Operating Divisions of Parent Company

So, we now pass over the subsidiary companies, The Fleischmann Distilling Corp., The Fleischmann Malting Co. and the International Division, and let's get back to the parent company for a minute.

The parent company consists of several divisions, the Fleischmann Sales Division, the Grocery Sales Division, what we call the Special Products Division, and the Vinegar Sales Division.

Now you may hear about some other products that you never dreamed were sold by Standard Brands Incorporated. This group of products is handled by our Special Products Division.

The Special Products Division of Standard Brands sells specialty items to the drug and food industry; the textile and paper coating industry; and to animal feed manufacturers. The division consists of a small selling organization covering the entire United States, with headquarters here in New York, and with a sales manager in charge. He and his group of representatives are all technically trained. They are either graduate chemists or graduate pharmacists. It is necessary for them to have technical training because all of these products are sold indirectly through the research people in their customers' organizations.

In other words, because of the technical nature of these products, the sale is not made directly to purchasing departments. Invariably they first must go to the research people for full discussion and application in the products that these prospective customers make, or for the development of new products. Once the research people in these companies accept the product, it is automatic for the purchasing department to purchase the product designated by the research organization.

Dry yeast and yeast extracts of guaranteed vitamin B Complex potency, irradiated yeast (of specified vitamin D content), yeast derivatives, such as ergosterol and nucleic acid, are sold by the methods as indicated above. In addition, enzyme products for desizing in the textile industry, and enzyme products used in the paper coating industry are handled in a similar manner. The animal feed industry requires vitamin and protein materials in making a complete animal feed formula, and several of the products of this division find their place in that industry.

Briefly summarizing, this group handles a series of highly technical products, the sale of which requires a technically trained group of individuals.

Now, the Vinegar Sales Division is another small sales division with not very many in its selling organization. The headquarters are here in New York, with a sales manager running it.

We sell white distilled vinegar. Now, vinegar has been historically related to the yeast business for a good many years. In other words, the spirits first came as a by-product in the manufacture of yeast and from the distilled spirits, through an oxidation process—white distilled vinegar. In recent years, the processes have been changed, both the processes for the production of yeast and the processes for the production of vinegar, and today they are not worked together. One doesn't come from the other. They are separate productions, entirely.

We are the largest producers of the white distilled vinegar in the country. We sell vinegar to people who make mustards tomato products, pickles, mayonnaises and things of that sort. This white distilled vinegar is sold direct, on a carlot basis, to such manufacturers, from three different points in the country. New York, Chicago, and San Francisco, and that also is a satisfactory business for us.

Now, let's consider the sales divisions of the parent company, that is, the Fleischmann Sales Division and the Grocery Sales Division. First, let's briefly run over the products sold through these two sales divisions.

The Fleischmann Division handles the sale of the products used by the baking industry, hotels, restaurants and institutions. The Grocery Division handles the sale of products that are resold by grocers.

Among the products of the Fleischmann Division sold to bakers are compressed yeast, frozen eggs, and a special margarine for bakers' use. We are the largest producers of bakers' yeast, and the largest freezers of eggs for the baking industry. We freeze in excess of 60,000,000 pounds of eggs a year. Our margarine for bakers is a new development in the shortening field. It is a hydrogenated 100% vegetable shortening churned with skim milk. It imparts a rich butter-like flavor, desirable shortening properties, and nutritive value to bakery products in which it is used.

We sell frozen fruits to the baking industry and, of course, baking powder, leaveners of all kinds to the baking industry, a straight baking powder, and two types of acid bases that can be used in different types of cake production; a malt syrup, both liquid and dry, and dough improvers.

Among the products sold to hotels and restaurants are coffee, tea and a line of fine gelatin and pudding desserts.

Among the consumer products marketed by our Grocery Division are Fleischmann's compressed yeast cakes and dry granular yeast, Chase & Sanborn Coffee, Tender Leaf Tea, Royal Gelatin Desserts and Royal Puddings, Royal Baking Powder and Blue Bonnet Margarine.

The Daily Delivery System

Now, for a good many years after 1929, we had a delivery system that served daily, or twice a week, or three times a week, or every other week, the grocery stores and the bakeries, institutions, over the country. As time went on, however, since 1929, while we got out of the trouble temporarily, from an expense standpoint — as you gentlemen will know, there are expenses of all sorts that have gone up materially, in the past 10 or 15 years, and certainly the store-door distribution system—and that's what we had—became not only a large expense but entirely out of reason with what any business could expect out it; so we have, necessarily, changed our method of selling to the different classes of trade that we deal with.

Someone here asked me, earlier today, said he hope that I could explain why his wife could not buy a small cake of yeast in the grocery store anymore. Well, that is one of the reasons, because dry granular yeast was produced, developed, that is equally as good as the old, foil-wrapped compressed yeast cake and it can be handled and sold in an entirely different manner.

In other words, it doesn't have to be delivered to the grocery store every other day, or every week, but it can be delivered, shipped to him, if you will, and kept on the shelf for a considerable length of time and still in that time be in good shape.

Accordingly, we have divided this delivery business of ours into two categories; in selling the consumer goods and selling the hotel and restaurant, or bakery or institutional, there are two entirely different efforts. In other words, we must, with the hotel and restaurant, with the baker, be able to deliver our product and help him in his difficulties of producing, or reprocessing our product in the restaurant or hotel or bakery, or whatever it may be. It is a service selling proposition.

Now, our consumer goods represent an entirely different proposition. The consumer goods, when delivered, have to be moved out of the grocery store, or off of the shelf, to the best of our ability, through other means, through advertising, through deals, through merchandising methods of all kinds, and types, so there are two entirely different methods of selling there. In regard to the products that require service-selling and store-door delivery, our products have been so improved that the store-door delivery doesn't have to be done as frequently as it did in the old days.

In other words, where we used to have to deliver yeast once a day, or every other day in some cases, we can now deliver it every week or two, and it holds up perfectly all right. For that reason, as I say, we have separated, on account of these different methods of selling, the service selling and the consumer effort.

We have here, in our Home Office, two organizations, the Fleischmann Division and the Grocery Division. Each division has its own product managers and these men formulate the different methods of selling, the service selling and the consumer effort. They formulate the different plans for merchandising the different products.

These men get into the researching, with our research people, regarding the quality of the products that they handle, the packaging of the product, and, yes, the advertising of the product.

Now, the difference between the product management set-up in the Fleischmann Division, and the product management in the Grocery Division is very little, but there is one big difference. In the Grocery Division, the Product Manager is also the Advertising Manager of those products, with assistants to carry out that whole job, because they have a real merchandising and advertising job to do, on their products, to get it into the consumer's hands, off of the grocery shelf, to get it out of the wholesale grocer's warehouse and into the retail store.

Now, in the Fleischmann Division, we have an advertising and a promotion department, because all of the Fleischmann Division advertising is institutional work and institutional work on all of the Fleischmann Division products can be handled by one department that works very closely with the Product Managers, and then in the field where the real selling job is done. The country is broken down, as far as both divisions of the business are concerned, into five regions, five grocery regions five Fleischmann regions, and those offices are administrative offices, completely.

I mean, they do not keep a lot of records or anything like that but they direct under them, each of them, several districts, and those districts are the real operating and selling points. The District Managers are in charge, and under them are the areas and branches. As far as the Fleischmann Division is concerned, the area and branch offices get down into calling on the trade and doing the selling job. As far as the Grocery Division is concerned the district maintains representatives that are out on the street pounding the pavements, selling the merchandise.

Now, the one point I missed a minute ago, when I was talking about distribution, when this distribution was changed, and we continued, as I mentioned, store-door delivery to the bakery, hotel, restaurant and institutional part of our business, I left out the consumer products, or left them high and dry.

Well, we sell the consumer products direct, through the chain store warehouses, wholesale grocers, jobbers and wagon distributors so that is where our job comes—in the advertising men the product managers—in getting the goods moved out of the warehouses, into the retail store, off the retail shelf into your hands into the hands of the consumer. That is a real job, today.

Now, in regard to calling on the trade, we have enough people in these different district and area points that I mentioned, to cover the trade at frequent intervals so that we can do a real job of selling. That depends upon geographical location and many other factors that enter into a job of calling on a customer and selling him. We take it for granted, here I mean, right now—I hope you take it for granted—that, first, our products are right. We are sure that our products are.

I want you to take it for granted that the product is right. I want you to take it for granted that our prices are right, from a competitive standpoint, because we are coming into a very competitive market. In the food business, we are right in the middle of it today.

Now, when the product is right and the prices are right, from a competitive angle, we have to make money. If we can't make money and get a good gross, we have nothing to work with, so let's take that for granted, too.

But we have to work for that as much as we work for the product and on the prices. Those things are all interlocked. Now, although our products are excellent, and our prices are competitively right —if the other fellow's quality and prices are fairly comparable, the

how—and you can rightfully ask me this question—then, how do we maintain our position?

Services to Customers

Well, I'm going to try to answer that. We maintain our position mainly because of two things: First, organization; and second, various services that we have to offer to our customers. For instance first let us consider our service. We think we have the finest delivery service that any manufacturer could possibly develop, not only in direct delivery, but all types of our delivery services. We think it is "tops."

We have technical services, research services, and technical production services. We have consumer services, we have sales promotion services, and we do a tremendous amount of work with associations, associations' services.

Now, the technical services, the research, the production services, the delivery services, the sales promotional services, those things are more or less self-explanatory.

I would like to suggest just a couple of thoughts here, in connection with this consumer education service and the association service. In the consumer end of our business, there are trained home-economists who work with the different groups of home-makers over the country, and they develop their confidence, develop their enthusiasm in regard to our products, and they also work with associations.

Along the line of association promotion, we have developed motion pictures, training pictures and things of that sort—with four different associations — that we try to have shown at meetings, over the country, from time to time, and we tie-in with the headquarters of these associations, work with them, work for them, and do a job with and for them.

As far as our institutional advertising is concerned—and, for a good many years, in the Fleischmann end of our business, practically all of our advertising money was expended in advertising. For instance, with the bakers' products, we knew full-well that if we could increase the bakery business we would get our share of the increase of our business that came out of their increase. We felt sure we would get more than our share, as a matter of fact, and we did not try to do it to the exclusion of our competitors. And don't misunderstand me. I'm not trying to tell you that we are doing it for them, but we are doing it for us, but we knew that if we increased the baker's business we would get an increase, and we didn't care what little increase the competitor might get out of it.

Service selling, with this company, has been traditional, for a good many years. As a matter of fact, it was at one time said that with the sale of every pound of yeast goes a service insurance policy, and that is pretty nearly so, and has been for a good many years, because if a man ever thinks he has any difficulty with our yeast—and on occasion, at least, they tell us they do—we can usually send a man in and show them that it wasn't our yeast, and that the cause of the difficulty was something entirely different from yeast.

So, the service is Number One, and it assists us in maintaining our position. Number Two, I mentioned the organization—and I am not going to keep you very much longer—but organization is very, very important, regardless of our product, regardless of our price, and regardless of anything else. If we do not have a good organization, and if we do not have good manpower, all of the rest of it means nothing.

Manpower Development Program

So, therefore, a few years back, we developed what we think is a very fine manpower development program. As a matter of fact, Mr. Sutton, with whom you are all familiar, did some work with us on that, in the early days of the development of our present program that is continually going on, through the industrial relations department we have in our business today.

Now, of course, that manpower development program is broken down into two parts. First, selection, and then induction, and if you know Mr. Sutton, you know what selection and induction is, I believe, so I am not going to talk for a long time about that, other than to point out that which I am sure you know, and that is how important it is to select the right man for the right job, and not get square pegs in the round holes, which was often done in industry for a long period of time, at a very high cost not only to the industry but also to the individuals themselves.

We also have a very fine integrated sales training program and we feel very definitely and very sincerely that those two things, if everything else is about equal, are the things that really allow us to maintain our position.

Now, of course, your handling of people, your understanding of their problems and your understanding of them for themselves, as people, are very important, as well as your handling of the insurance programs, pension programs, hospitalization programs and just everything that you can do for them in the right kind of a way, in line with good business judgment.

All of those things are important in helping you maintain a desired position of sales.

Up own, in our office, when we get into arguments around the place, and we do get into plenty, we finally come out with an understanding and an agreement, because we try to work it out on the basis that we have no moral right to decide on opinion that which can be decided on a matter of fact.

In other words, we go out and get the facts and decide the problem upon the results of that analysis of the facts, and the fellow who missed his guess, or had the wrong opinion, is very happy about the whole thing. If we work with our people on that kind of a basis and get out and pitch for them—if we are big enough, if you will, to be small enough to be big, when we are working with the people, and we think we are, because we are going to get along with these people that are doing a job for us, and without them we can't maintain the sales, because don't forget, gentlemen — one thought I am going to leave with you, today—that it is people, and not things, that make money.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

ABC Vending Corp., N. Y. City (1/16-20)
Dec. 27 filed 200,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—Reynolds & Co., New York. **Proceeds**—For new machinery and equipment to expand activities. Expected week of Jan. 16.

• **Albuquerque (N. M.) Associated Oil Co.**
Jan. 3 (letter of notification) 50,000 shares of common stock at $2 per share, the net proceeds to be used to build a surplus fund for oil and gas operations in San Juan Basin. No underwriter. **Office**—213 First National Bank Building, Albuquerque, N. Mex.

American Cladmetals Co., Carnegie, Pa.
Dec. 15 (letter of notification) 10,000 shares of common stock (par $1) for account of selling stockholder. **Underwriter**—C. S. McKee & Co., Pittsburgh, Pa. **Price**—Expected at market.

• **American Telephone & Telegraph Co. (1/31)**
Jan. 6 filed $200,000,000 of 21-year debentures due Feb. 1, 1971. Underwriters—Names to be determined by competitive bidding. Probable bidders: Morgan, Stanley & Co.; Mellon Securities Corp.; Halsey, Stuart & Co. Inc. and The First Boston Corp. (jointly). Bids—Expected to be opened at 11:30 a.m. (EST) on Jan. 31. Proceeds—Together with other funds, will be used "for advances to subsidiary and associated companies; for the purchase of stock offered for subscriptions by such companies; for extensions, additions and improvements to its own telephone plant; and for general corporate purposes."

• **Ashland Oil & Refining Co.**
Jan. 6 filed $15,000,000 of 3% sinking fund debentures due 1970 and 50,000 shares of $5 cumulative preferred stock (no par), of which 30,000 shares are for account of company and 20,000 shares for account of selling stockholders. **Price**—To be filed by amendent. The preferred probably between $97 and $102 per share, and the debentures between 100% and 103% of principal amount. **Underwriter**—A. G. Becker & Co. Inc. **Proceeds**—From sale of stock, $1,883,747 will be used to reimburse the company's treasury for the cost of 45.53% of the stock of Aetna Oil Co, purchased by Ashland on Nov. 23, 1949, and the balance added to working capital. From sale of debentures, $10,859,767 will be used to prepay outstanding indebtedness of Ashland and its subsidiaries, of Aetna and of Freedom-Valvoline Oil Co. and the balance added to Ashland's general funds.

• **Bear Basin Mining Co., Bremerton, Wash.**
Dec. 27 (letter of notification) 763,860 shares of preferred stock (par 10 cents), to be offered at 20 cents per share. No underwriter. **Proceeds**—To buy mining and milling equipment. **Office**—641 N. Callow Avenue, Bremerton, Wash.

• **(The) Best Foundation, Inc., Indianapolis, Ind.**
Jan. 3 (letter of notification) $500,000 of 6% amortization notes at $100 each and up. No underwriter. **Proceeds**—Will go as follows: One half to Best Universal Lock Co. for increased working capital, and the other half to a church or other beneficiary. **Office**—7 N. Meridian Street, Indianapolis, Ind.

Broadway Angels, Inc., New York City
Nov. 14 filed 2,000,000 shares (1c par) common stock and 500,000 management shares of 0.1 of a cent par value, to be sold at 50 cents and 12.5 cents respectively. **Underwriter** — Hugh J. Devlin, New York. **Proceeds** — For working capital. **Business**—To back theatrical productions, distribute tickets and act as an agent for talent.

Canam Mining Corp., Ltd., Vancouver, B. C.
Aug. 29 filed 1,000,000 shares of no par value common stock. **Price**—800,000 shares to be offered publicly at 80 cents per share; the remainder are registered as "bonus shares." **Underwriter**—Israel and Co., New York, N. Y. **Proceeds**—To develop mineral resources. Statement effective Dec. 9. Offering expected in January.

Columbia Gas System, Inc. (1/17)
Dec. 28 filed 304,998 shares of common stock (no par), representing unsubscribed portion of 1,345,300 shares offered stockholders May 24, 1949. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers; Goldman, Sachs & Co. and Union Securities Corp. (jointly); Morgan, Stanley & Co.; Shields & Co. and R. W. Pressprich & Co. (jointly); Blyth & Co. and W. C. Langley & Co. (jointly). Bids expected about Jan. 17. **Proceeds**—For construction.

• **Community Building Corp., Juneau, Alaska**
Dec. 23 (letter of notification) $25,000 of first mortgage bonds and 250 shares of common stock. The bonds are to be offered in principal amounts of $500 each, and the common stock at par ($100 per share). No underwriter. **Proceeds**—To pay unsecured notes of indebtedness incurred to build an office building now leased to the U. S. Coast Guard. **Address**—Box, Juneau, Alaska.

Consolidated Caribou Silver Mines, Inc.
Nov. 17 (by amendment) 800,000 shares (no par) common stock. **Price**—$1.25 per share. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Expected about Jan. 6.

Duval Texas Sulphur Co., Houston, Tex.
Dec. 21 filed 375,000 shares of capital stock (no par) to be offered to stockholders at $13.50 per share at the rate of ¾ths of a new share for each share held. [The United Gas Corp., owner of 74.71% of the outstanding Duval capital stock, has agreed to purchase at the subscription price any shares of stock not subscribed for by other stockholders.] **Underwriter** — None. **Proceeds** — To be used, along with a $2,500,000 bank loan, to provide mining and milling facilities to mine potash in Eddy County, N. M. Name changed Dec. 30 by stockholders to Duval Sulphur & Potash Co.

Eastern Harness Racing Club, Inc. (1/16-20)
Oct. 27 filed 1,000,000 shares (5c par) common stock. Price, $1 each. **Underwriter**—Tellier & Co., New York. **Proceeds**—To purchase, improve and operate the Fort Steuben Raceway. Expected second week in January.

• **Franklin Ice Cream Co., Toledo, O.**
Jan. 5 (letter of notification) 3,000 shares of common stock (no par) to be offered to stockholders at $25 per share. No underwriter. Proceeds for working capital. **Office**—5015 Monroe Street, Toledo, O.

• **Great Mutual Life Insurance Co., Salt Lake City**
Jan. 6 (letter of notification) $290,000 of 4% surplus fund certificates at $50 each, a majority of which will be issued in connection with life insurance policies having a unit annual payment of $100 for the first five years and an annual premium of $50 thereafter. No underwriter. Proceeds to create capital and surplus funds. **Office**—25 E. Second South, Salt Lake City 1, Utah.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 31 filed 620,000 shares of class A participating ($1 par) stock and 270,000 shares (25c par) common stock. **Offering—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. Underwriters—Names by amendment, and may include John J. Bergen & Co. and A. M. Kidder & Co. Underwriters will buy the remaining 135,000 shares plus unsubscribed shares of the new common. Offering price of class A $5. Proceeds—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations and to provide working capital.**

Handmacher-Vogel, Inc., New York
Nov. 28 filed 150,000 shares ($1 par) common stock, of which 50,000 are to be offered by company and 100,000 by three stockholders. **Underwriter** — None named. **Price**—$10 per share. **Proceeds**—Company plans to use $315,000 to redeem 3,000 shares 5% cumulative preferred stock ($100 par) at 105, and the remainder to improve lease-hold property and furnish new offices. **Business**—Manufacture of women's suits. Statement effective Dec. 15.

Hingham (Mass.) Industrial Center, Inc.
Dec. 2 (letter of notification) 25,000 shares of class A ($10 par) common stock. Price, par. **Underwriter**—Per-

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NEW ISSUE CALENDAR

January 16, 1950

ABC Vending Corp.____________________Common
Eastern Harness Racing Club, Inc.__________Common

January 17, 1950

Columbia Gas System, Inc.______________Common
Middle South Utilities Inc., 11 a.m. (EST)_Common
Minute Maid Corp.____________________Common
Niagara Mohawk Power Corp.
11:30 a.m. (EST)_____________________Bonds
Phoenix Silk Corp., 11 a.m. (EST)________Common

January 18, 1950

Chicago Rock Island & Pacific RR.
Noon (CST)__________________________Bonds

January 19, 1950

Michigan Associated Telephone Co._______Preferred

January 20, 1950

Webster-Chicago Corp.________________Common

January 24, 1950

United Gas Corp., 11:30 a.m. (EST)_________Bonds

January 25, 1950

Indiana Harbor Belt RR.___________Equip. Tr. Ctfs.

January 31, 1950

American Telephone & Telegraph Co.
11:30 a.m. (EST)____________________Debentures

February 1, 1950

Consumers Power Co.___________________Common

February 14, 1950

Western Maryland Ry.____________Equip. Tr. Ctfs.

February 15, 1950

Sharp & Dohme, Inc.___________________Preference

March 1, 1950

Pennsylvania RR.________________Equip. Tr. Ctfs.

April 10, 1950

Utah Fuel Co., 11 a.m. (EST)______________Common

Continued from page 39

kins & Co., Boston. For operating a plant to be leased from the Navy Department. To be withdrawn.

● **Horseshoe Basin Mining & Development Co., Inc., Bremerton, Wash.**
Dec. 27 (letter of notification) 75,000 shares of common stock at 60 cents each. No underwriter. **Proceeds**—For development work and equipment. **Office**—245 4th Street, Bremerton, Wash.

● **Industrial Plan of Connecticut, Inc., New Haven, Conn.**
Jan. 6 (letter of notification) 3,086 shares of common stock (par $1) to be offered at $1.75 per share. No underwriter. Proceeds to pay loans and to provide additional working capital **Office**—746 Chapel Street, New Haven, Conn.

● **Industrial Plan of Northern New England, Inc., Concord, N. H.**
Jan. 6 (letter of notification) 3,086 shares of common stock (par $1) to be offered at $1.75 per share. No underwriter. Proceeds to pay loans and provide additional working capital. **Office**—28 S. Main Street, Concord, N. H.

Insurance Co. of North America, Philadelphia
Dec. 30 filed 30,000 shares of capital stock (par $10) to be offered to employees of the company and its six affiliated companies under an employees' stock subscription plan. No underwriter. Proceeds for general corporate purposes.

● **Kansas Gas & Electric Co.**
Jan. 6 filed 32,011 shares of cumulative preferred stock (par $100), to be issued in exchange for existing 7% and $6 preferred stocks on a share-for-share basis, with 7% preferred stockholders also receiving $5 per share in cash. Any unexchanged shares, which will include 5,650 shares to be issued for the preferred stocks presently held in treasury, would be sold to underwriters. **Underwriters**—To be filed by amendment. Probable bidders: Union Securities Corp.; Harriman Ripley & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly). **Proceeds**—To be used to redeem at $115 and $110 each, respectively, the old 7% and $6 preferred shares not surrendered under the exchange. It is expected that the exchange offer will be made early in February.

Kerr-McGee Oil Industries, Inc.
Dec. 22 (letter of notification) 1,500 shares of common stock (par $1), for Dean Terrill, selling stockholder. **Underwriter**—Straus & Blosser, Chicago. **Price**—$12 per share.

● **Lamston (W. H.), Inc.**
Jan. 5 (letter of notification) 1,500 shares of common stock. **Price**—$8 per share. **Proceeds**—To Harold Stone (Vice-President), the selling stockholder. **Underwriter**—Childs, Jeffries & Thorndike, Inc.

Lowell Electric Light Corp., Lowell, Mass.
Dec. 30 filed 55,819 shares of capital stock (par $25). **Offering**—To be offered at $35 per share to common stockholders at the rate of one new share for each three shares held. **Underwriter**—None. **Proceeds**—To repay bank loans, for construction and to make further improvements.

Michigan Associated Telephone Co. (1/19)
Dec. 30 filed 50,000 shares of cumulative preferred stock (par $50). **Price**—To be filed by amendment. **Underwriters**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Proceeds**—To pay a $2,444,197 demand note held by General Telephone Corp., its parent, which had been issued to redeem outstanding 6% cumulative preferred stock held by same company. **Offering**—Expected about Jan. 19.

Middle South Utilities, Inc. (1/17)
Dec. 21 filed 640,000 shares of common stock (no par). **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Dillon, Read & Co. Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp.; Lehman Brothers, Blyth & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly). **Proceeds**—To make common stock investments totaling $13,000,000 in three subsidiaries, viz: Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co., so that these subsidiaries can continue construction programs. **Bids**—Bids will be received by the company at Room 2033, Two Rector St., New York 6, N. Y., up to 11 a.m. (EST) on Jan. 17.

Minute Maid Corp. (1/17-18)
Dec. 28 filed 280,000 shares of common stock (par 10¢), of which 200,000 shares are to be sold for account of the company and 80,000 shares by J. H. Whitney & Co., New York. **Price**—To be supplied by amendment, the underwriting commission to be 10% of the offering price. **Underwriters**—Paine, Webber, Jackson & Curtis and White, Weld & Co. **Proceeds** (from sale of 200,000 shares)—To be used to repay $2,000,000 bank loan negotiated to purchase six orange groves, and for investment in Minute Maid Groves, Corp., which will operate these orange grove properties. Expected Jan. 17 or 18.

Moller-Dee Textile Corp., Wilmington, Del., and Tel-Aviv, Israel
Dec. 7 filed 500,000 shares ($5 par) capital stock. **Underwriter**—Coffin, Betz & Co., Philadelphia. **Price**, par. **Proceeds**—To build a textile plant in Israel. **Business**—Cotton textiles.

● **Monaghan (J. J.) Co., Inc., Denver, Colo.**
Jan. 5 (letter of notification) 300 shares of class A preferred stock at $150 per share. No underwriter. Proceeds to finance expansion into other lines of merchandise. **Office**—500 Alcott Street, Denver, Colo.

● **Nevada Stewart Mining Co., Spokane, Wash.**
Jan. 3 (letter of notification) 250,000 shares of nonassessable common stock at 12 cents each. No underwriter. Proceeds to develop claims in Yreka mining district, Shoshone County, Idaho. **Office**—604 Empire State Bldg., Spokane 8, Wash.

New Jersey Power & Light Co.
June 9 filed 20,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co.; Lehman Brothers; Drexel & Co. **Proceeds**—Will be applied to the payment of the cost of, or in reimbursement of payments made for, construction of additions and betterments subsequent to April 30, 1949. Expected in mid-March.

● **New Rainbow Mining Co., Spokane, Wash.**
Dec. 22 (letter of notification) 3,000,000 shares of 10-cent par value assessable shares, of which three were sold at 10 cents each and 2,999,997 shares were issued to George Austin for assignment of option to buy properties of Rainbow Mining & Milling Co., Ltd. No underwriter.

Niagara Mohawk Power Corp. (1/17)
Dec. 15 filed $40,000,000 of gen. mtge. bonds, due Jan. 1, 1980. **Bids**—Bids will be received by the corporation at Room 1540, 15 Broad St., New York, N. Y., up to 11:30 a.m. (EST) on Jan. 17. **Underwriters**—Names to be determined by competitive bidding. Probable bidders—Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp. **Corporation**—On Jan. 5 succeeded to merger of Buffalo Niagara Electric Corp., Central New York Power Corp. and New York Power & Light Corp. Central New York, the surviving company, changed its name to Niagara Mohawk. The Niagara Falls Power Co. will be its direct subsidiary. **Proceeds**—To repay $38,500,000 of bank loans obtained in 1948 and 1949 in connection with the construction program of the constituent companies and to finance in part the company's construction program. This program is expected to require about $43,000,000 in 1950 in addition to the $70,000,000 of expenditures since 1947.

● **Pacific Gas & Electric Co.**
Jan. 10 filed 1,500,000 shares of 4.80% redeemable preferred stock (par $25). **Underwriter**—To be named by amendment. Traditional underwriter—Blyth & Co., Inc. **Proceeds**—To retire all or part of bank loans outstanding under the company's credit agreement of March 1, 1948, and to finance in part its construction program.

● **Parking Services, Inc., Washington, D. C.**
Dec. 29 (letter of notification) 120,000 shares of class A common stock, non-voting (par 50 cents) and 60,000 shares of class B voting common stock (par 10 cents). **Price**—At $5 per unit, each unit to consist of two shares of class A and one share of class B stock. **Underwriter**—James T. DeWitt & Co., Washington, D. C. **Proceeds**—For general working capital to lease or buy property for parking and garage use. **Office**—1419 Eye Street, N. W., Washington, D. C.

● **Pullman Mfg. Co., Rochester, N. Y.**
Jan. 3 (letter of notification) 671 shares of 5% cumulative preferred stock (par $100), 568 shares to be issued in exchange for 199 shares of preferred A stock and 369 shares of preferred stock B, share for share; and 103 shares to be issued in lieu of all unpaid accumulated dividends on preferred stock B. No underwriter. **Office**—325 Hollenbeck Street, Rochester 21, N. Y.

● **Reeves Soundcraft Corp.**
Jan. 6 (letter of notification) 200,000 shares of common stock (par 5c) to be offered at 25 cents per share to common stockholders. Rights will expire Jan. 25. No underwriter. Proceeds to provide capital to enter the magnetic tape recording field and for general corporate purposes. **Office**—35-54 36th Street, Long Island City 6, N. Y.

● **Rheem Manufacturing Co., Richmond, Calif.**
Dec. 30 (letter of notification) 14,000 shares of common stock (par $1), held by Donald L. Rheem and George M. Greenwood as trustees of the officers' and directors' stock bonus fund. **Underwriter**—Blyth & Co., Inc., who is to purchase the stock at from $19.50 to $20.25 per share. **Proceeds**—For general purposes.

● **Sanitary Products Corp., Taneytown, Md.**
Jan. 3 (letter of notification) 53,975 shares of common stock (par $1), of which 49,600 shares will be sold to James C. Kennedy, Jr., New York City, and the balance (4,375 shares) will be offered to the public at $4 per share. No underwriter. Mr. Kennedy will pay $4 per share for 7,555 shares and $6 per share for 42,045 shares, and will take an underwriting commission of 30 cents and 53.51 cents, respectively, on his shares. Proceeds to be used for engineering services, material, labor, molds and working capital.

Service Finance Co., Los Angeles, Calif.
Dec. 19 (letter of notification) 65,000 shares of common stock. **Price**—Par ($1 each). **Underwriter**—Dempsey Tegeler & Co., Los Angeles. **Proceeds**—For working capital. **Office**—607 S. Hill Street, Los Angeles.

Sharp & Dohme, Inc., Philadelphia, Pa. (2/15)
Dec. 9 filed 171,815 shares of cumulative preference stock (no par). **Offering**—Offered in exchange for 229,085⅔ shares of $3.50 cumulative convertible preference stock, series A, at rate of three new shares for each four old ones. Offer expires Jan. 19. **Underwriters**—Alex. Brown & Sons, Baltimore, and Drexel & Co., Philadelphia, who have agreed to purchase from the company up to a maximum of 86,000 shares of $4.25 preference stock which may be offered by the underwriters on or about Feb. 15. **Proceeds**—To redeem at $75 each plus accrued dividends any $3.50 preference stock not surrendered under the exchange. **Business**—Pharmaceuticals. Statement effective Jan. 3.

South Carolina Electric & Gas Co., Columbia, South Carolina
Nov. 22 filed $22,200,000 first and refunding mortgage bonds. Due 1979. **Underwriter**—Names by amendment. **Proceeds**—To redeem a like amount of outstanding bonds. Due 1979. **Underwriter**—Names by amendment (probably Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Union Securities Corp.). Expected in January.

● **South Pacific Engineering Corp., Portland, Ore.**
Jan. 3 filed 5,000 shares of 4% preferred stock (par $100) and 25,000 shares of common stock (no par) to be "offered as a speculation." **Price**—In units of one preferred share and five common shares at $100 per unit. To be sold by salesmen directed by James L. Evans, President, with a $25 per unit selling commission. **Proceeds**—For industrial and mining projects in Oregon and Ecuador.

Southwestern Public Service Co., Dallas, Texas
Dec. 30 filed 168,729 shares of common stock (par $1) to be offered common stockholders at the rate of one new share for each eight shares held. **Underwriter**—To be named in an amendment, along with offering price. Traditional underwriter is Dillon, Read & Co. Inc. **Proceeds**—For construction of additions and improvements and to repay bank borrowings for these purposes. Expected about Jan. 19 or 20.

Soya Corp. of America, N. Y. City
Dec. 15 (letter of notification) 400,000 shares of common stock (par 1c) at 50c per share. **Proceeds**—For improvements and working capital. No underwriting.

● **Steau-Oil Co., Inc., Reno, Nev.**
Dec. 30 (letter of notification) 200,000 shares of common stock at $1 per share. Proceeds will be used to drill new oil well, pay leases, make geological surveys, etc. **Underwriter**—Phil Morse, Kingman, Ariz. **Office**—Cheney Bldg., 139 N. Virginia Street, Reno, Nevada.

Teco, Inc., Chicago
Nov. 21 filed 100,000 shares ($10 par) common stock. **Offering**—These shares are to be offered to holders of common stock in Zenith Radio Corp. at rate of one share for each five held. Underwriter—None. **Proceeds**—For working capital and the promotion of Zenith's "Phonevision" device, whereby television users could pay a special fee for costly television programs by calling the telephone company and asking to be plugged in.

● **Tiffin Art Metal Co., Tiffin, O.**
Jan. 6 (letter of notification) $98,500 of 4½% sinking fund debentures, due 1964. **Price**—100½% of principal amount. **Underwriter**—The Ohio Co., Columbus, O. **Proceeds**—To buy a lot and building in Toledo for use as warehouse and distributing point. **Office**—2nd and Broad Avenue, Tiffin, O.

● **Triplex Corp. of America, Pueblo, Colo.**
Dec. 30 (letter of notification) 50,000 shares of common stock at $2 per share to be offered first to common stockholders and then to preferred stockholders in proportion to their holdings. No underwriter. Proceeds to pay obligations resulting from expanding inventories and to improve working capital. **Offices**—Pueblo, Colo., and 1415 Joseph Vance Bldg., Seattle, Wash.

United Gas Corp. (1/24)
Dec. 21 filed $25,000,000 of first mortgage and collateral trust bonds, series due Jan. 1, 1970. **Underwriters**—Names to be determined by competitive bidding. **Bids**. it is expected will be opened at 11:30 a.m. (EST) on Jan. 25 at 2 Rector Street, New York. Probable Bidders: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; The First Boston Corp.; Harriman, Ripley & Co. and Goldman, Sachs & Co. (jointly); Equitable Securities Corp. **Proceeds**—To purchase $18,000,000 of first mortgage bonds, 4% series due 1962, to be issued by United Gas Pipe Line Co., its subsidiary, and for general corporate purposes.

United States Fidelity & Guaranty Co., Baltimore
Dec. 27 filed 300,000 shares of capital stock (par $10). **Price**—To be filed by amendment. **Offering**—To stockholders at the rate of one share for each 3⅓ shares now held. **Underwriters**—Alex. Brown & Sons, John C. Legg & Co., Stein Bros. & Boyce, and Baker, Watts & Co., all of Baltimore. **Proceeds**—For additional capital and surplus.

Upper Peninsula Power Co.
Sept. 28, 1948 filed 154,000 shares of common stock (par $9. **Underwriters**—SEC has granted exemption from competitive bidding. An investment banking group managed by Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Paine, Webber, Jackson & Curtis, may be underwriters. **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively.

● **Walkerville Volunteer Fire Co., Walkerille, Md.**
Jan. 5 (letter of notification) $30,000 of first mortgage 10-year construction bonds, at $25 and $100 each. No underwriter. Proceeds to build a fire engine house.

Webster-Chicago Corp. (1/20-25)
Dec. 29 filed 125,000 shares of common stock (par $1), to be sold by Rudolph F. Blash, President, and Mrs. Blash. **Price**—To be filed by amendment. **Underwriters**—F. Eberstadt & Co., Inc., New York, and Shillinglaw, Bolger & Co., Chicago. **Business**—Automatic changers. **Offering**—Expected between Jan. 20 and 25.

● **Western Union Telegraph Co.**
Jan. 4 (letter of notification) 117 shares of class A stock to be offered at market (about $22.52½). **Underwriter**—J. R. Williston & Co., New York. **Proceeds**—To go to holders of class A scrip certificates which expired Dec. 31, 1949.

Younker Brothers, Inc., Des Moines, Ia.
Nov. 4 (letter of notification) 1,000 shares (no par) stock, to be sold at $27.50 each. **Underwriter**—T. C. Henderson & Co., Des Moines. **Proceeds**—To selling stockholder.

Prospective Offerings

American Telephone & Telegraph Co.
Dec. 21 directors voted to make a third offering to employees of the company and its subsidiaries of up to 2,800,000 shares at a price of $20 per share less than the market price when payment is completed, but not more than $150 nor less than $100 per share.

Central Maine Power Co.
Dec. 27 it was reported that a block of common stock of this company now owned by New England Public Service Co. may reach the marketing stage this spring.

● **Chattanooga Gas Co.**
Jan. 3 stock interest in this company (7,500 shares of common stock), par $100, was authorized by the SEC to be sold by Southern Natural Gas Co. to Equitable Securities Corp. for $1,875,000, subject to the condition, among others, that the latter dispose of said stock in 12 months.

Chicago, Rock Island & Pacific RR. (1/18)
Dec. 20 company asked ICC for authority to issue $55,000,000 first mortgage bonds, due Jan. 1, 1980, the net proceeds to be used toward paying off $25,760,000 of notes and to redeem on April 1, next, approximately $33,400,000 of general mortgage 4½% convertible income bonds, series A, due Jan. 1, 2019. To be offered at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Lehman Brothers; Lazard Freres & Co. and Bear, Stearns & Co. (jointly); Morgan, Stanley & Co. The bank loan was made to redeem on Jan. 1, 1950, $25,760,000 first mortgage series A 4s, due Jan. 1, 1994. **Bids**—Bids will be received at the company's office, Room 1015, 139 West Van Buren Street, Chicago, Ill., at or before 12 o'clock noon (CST) on Jan. 18.

● **Colorado Interstate Gas Co.**
Jan. 7 it was reported that 531,250 shares of common stock (42½% of total outstanding), which was purchased in 1948 by group headed by Union Securities Corp., may be reoffered early this Spring.

● **Commonwealth Edison Co., Chicago**
Jan. 10, announced the company plans $90,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; The First Boston Corp.; Glore, Forgan & Co.

Consumers Power Co. (2/1)
Dec. 1 company in an application filed with the Michigan P. S. Commission, disclosed plans for selling an additional 454,457 shares of common stock. The new shares would be used to finance company's construction program. Initially the shares will be offered to common stockholders for subscription on a 1-for-10 ratio, with employees also receiving purchase rights. The last common stock financing by company was effected in November, 1946, when a 500,000-share block was marketed competitvely and sold to a syndicate headed by Morgan Stanley & Co. Other probable bidders: Lehman Brothers; Harriman, Ripley & Co. and The First Boston Corp. (jointly). The sale of this issue may be negotiated. Expected around Feb. 1.

● **East Tennessee Natural Gas Co.**
Jan. 10 reported company will shortly file with the SEC a new issue of securities, the proceeds of which would be used for the laying of a pipe line into the Oak Ridge, Tenn., plants.

Florida Power & Light Co.
Under plan III of Electric Bond & Share Co. the 191,590 common shares of Florida owned by American Power & Light Co. may be sold competitively. Probable bidders: The First Boston Corp.; Dillon, Read & Co. Inc.; Glore, Forgan & Co.; Blyth & Co., Inc.; Lehman Brothers; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane.

Indiana Harbor Belt RR. (1/25)
Dec. 15 company reported to be planning the issuance of $1,800,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.). Expected about Jan. 25.

● **International Bank for Reconstruction & Development**
The bank has called for redemption on Feb. 17, 1950, its $100,000,000 10-year 2¼% bonds due July 15, 1957, and intends early this year to replace them with an issue of like amount that will mature serially in three to twelve years at the rate of $10,000,000 annually. The new issue is to be sold at competitive bidding. Four banking syndicates are expected to bid for the new issue of serials. One group is to be headed by Chase National Bank, The First Boston Corp., Salomon Bros. & Hutzler and C. J. Devine & Co., Inc. A second group will be headed by National City Bank, Kuhn, Loeb & Co. and J. P. Morgan & Co. Incorporated. The third will be headed by Bankers Trust Co. and Morgan Stanley & Co. The fourth group is Halsey, Stuart & Co. Inc.

● **King Brothers Production, Inc.**
Dec. 27 reported planning sale of 300,000 shares of common stock (par $1) in the calendar year 1950 to the public and others at par (out of 1,000,000 shares authorized). Proceeds to finance new motion pictures.

Laclede Gas Light Co.
On Jan. 26 stockholders will consider authorizing a new issue of 480,000 shares of preferred stock (par $25) and on changing name of company to Laclede Gas Co. Probable bidders: The First Boston Corp. and Blyth & Co., Inc. (jointly); Smith, Barney & Co. and Goldman, Sachs & Co. (jointly); Lehman Brothers, Merrill Lynch, Pierce, Fenner & Beane and Reinholdt & Gardner (jointly); Harriman Ripley & Co. **Proceeds**—To be used to finance part of $20,000,000 construction program planned over the 1950-1953 period.

Lone Star Steel Co., Dallas, Texas
Dec. 13 announced company plans to issue and sell $5,000,000 10-year first mortgage bonds and to raise an additional $2,000,000 through the issuance to present stockholders of rights to subscribe for 592,185 additional shares of common stock. **Underwriters**—Dallas Rupe & Son, Dallas, and Straus & Blosser, Chicago. **Proceeds**—To retire present indebtedness, finance the construction of a cast iron pressure pipe plant, and for other corporate purposes. Registration with SEC expected this month.

Metropolitan Edison Co.
Nov. 30 reported company plans to sell additional bonds and preferred stock, probably in February, to help finance its 1950 construction program. The company plans to issue and sell $7,000,000 first mortgage bonds due 1980 and 30,000 shares of $100 par preferred stock, at competitive bidding. Probable bidders: Drexel & Co.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Carl M. Loeb, Rhoades & Co.; Halsey, Stuart & Co. Inc. (bonds); Kidder, Peabody & Co. (bonds); White, Weld & Co. (bonds); Smith, Barney & Co. and Goldman, Sachs & Co. (jointly on pfd.); Glore, Forgan & Co. and W. C. Langley & Co. (jointly on pfd.).

Stockholders on Feb. 21 will consider increasing the authorized preferred stock from 185,000 shares to 215,000 shares.

● **Nashville Gas & Heating Co.**
Jan. 5 company estimated that $500,000 to $1,000,000 of new financing will be required early this year in connection with its 1950 construction program. Company officials have not yet determined what form the offering will take, but W. H. Ligon, President, says the company is considering the possibility of long-term financing in order to take advantage of present low interest rates. The company and a wholly-owned subsidiary of Tennessee Natural Gas Lines, Inc., and supplies Nashville, Tenn., and its suburbs with natural gas.

New Jersey Bell Telephone Co.
Company filed Dec. 8 with the New Jersey State Board of Public Utility Commissioners a plan for financing $65,000,000 of construction. Company proposes to sell $50,000,000 in common stock and $15,000,000 in long-term bonds to meet plant and installation costs. Probable bidders for bonds: Halsey, Stuart & Co. Inc.: Morgan Stanley & Co.; Kuhn, Loeb & Co.; Shields & Co.; First Boston Corp.; White, Weld & Co.

Northern Natural Gas Co.
Nov. 28 reported company contemplates sale of between $30,000,000 and $35,000,000 new debentures early in the new year. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; Kidder, Peabody & Co.

Pacific Power & Light Co.
Dec. 24 reported that company's tentative plans call for funding of $9,000,000 bank loans, probably in March. On Sept. 15 it was said plans to do some permanent financing of approximately $7,000,000 through the sale of additional first mortgage bonds to retire outstanding notes and to finance its construction program had been postponed to about May 1, 1950. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.; Equitable Securities Corp. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc.; White, Weld & Co. and Harris, Hall & Co. (Inc.) (jointly); Carl M. Loeb, Rhoades & Co.

● **Pennsylvania RR. (3/1)**
Jan. 9 it was reported company would probably be in the market about March 1 with $10,200,000 additional equipment trust certificates series Y. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman, Ripley & Co. Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); First Boston Corporation. Jan. 9 also reported company is expected to take care of additional equipment financing through issuance of series Z certificates.

● **Pfeiffer Brewing Co., Detroit**
Jan. 6 it was announced company plans to finance expansion to cost approximately $1,500,000 with a term loan.

Phoenix Silk Corp., Allentown, Pa. (1/17)
Dec. 28 the Attorney-General of the U. S. invited bids for the purchase, as an entirety, of 1,358 shares of capital stock (par $1 each). All bids must be presented at the office of Alien Property, Department of Justice, 120 Broadway, New York, N. Y., on or before 11 a.m. (EST) on Jan. 17. The stock will be sold only to American citizens.

Seaboard Air Line RR.
Dec. 9 reported that company has under consideration the refunding of its long-term first mortgage 4% bonds involving not less than $30,000,000. Probable bidders include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Lehman Brothers; First Boston Corp.; Harriman Ripley & Co., jointly.

● **Southern California Edison Co.**
Jan. 9 W. C. Mullendore, President, said company during 1950 plans to spend approximately $51,500,000 for new plant and replacements. A nationwide investment banking group, jointly headed by The First Boston Corp. and Harris, Hall & Co. (Inc.) on May 18, 1949 offered $20,000,000 of common stock, par $25.

● **Southern Natural Gas Co.**
Jan. 4 announced company has applied to the FPC for authority to construct natural gas facilities at an estimated cost of $32,520,000, which will be financed through the issuance of additional securities. Of the total cost, $18,360,000 will be applicable to the 1950 program, and the remaining $14,160,000 to be spent in 1951. This year's program will be financed initially by bank loans, which will be refunded later through the sale of bonds. The 1951 financing may be through the sale of common stock. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); and The First Boston Corp.

Southwestern Public Service Co.
Dec. 10 reported company plans to sell about $2,500,000 of debentures and is said to be considering plans to refund some of its privately-held indebtedness. Traditional underwriter, Dillon, Read & Co. Inc.

● **Staten Island Edison Corp.**
Jan. 5 General Public Utilities Corp. applied to the SEC for an exemption from competitive bidding to sell the entire common stock (325,000 shares) of Staten Island Edison Corp., through a negotiated sale. GPU plans to make a $4,000,000 capital contribution to Metropolitan Edison Co., of Reading, Pa., and a $650,000 capital contribution to New Jersey Power & Light Co., of Dover, N. J. The contributions are intended to aid the two subsidiaries in financing their construction programs.

Texas Electric Service Co.
Dec. 19 reported may offer 100,000 shares of new preferred stock. Expected to be sold competitively, possibly in April. Probable bidders may include W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Union Securities Corp.; Hemphill, Noyes, Graham, Parsons & Co. and Drexel & Co. (jointly); Harriman, Ripley & Co.; Blyth & Co., Inc.; Lehman Brothers; Kidder, Peabody & Co.; Smith, Barney & Co.

Utah Fuel Co. (4/10)
The referee will offer at public auction at 11 a.m. on April 10 all of the 100,000 outstanding shares of stock of this corporation at the Guaranty Trust Co. of New York, 140 Broadway, New York. **Business**—Mining of coal in Utah and Colorado and manufacturing of coke in Utah and sale of said products.

● **Washington Water Power Co.**
Jan. 7 it was reported that the company tentatively plans to sell approximately $6,000,000 bonds next September. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Harris, Hall & Co. (Inc.); Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane.

● **Western Maryland Ry. (2/14)**
Jan. 9 company was reported to be planning the issuance of about $2,500,000 equipment trust certificates on or about Feb. 14. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); Lee Higginson Corp.

Continued from page 4

The "Sun" That Was

the smallest increase in total since 1942.

The Bell Tolls for the "Sun"

Looking backwards, it is interesting to note that over the past half century no less than ten New York dailies have passed into oblivion. These papers include: The N. Y. Dispatch, N. Y. Press, N. Y. Recorder, Mail and Express, Globe and Advertiser, N. Y. Commercial, N. Y. Herald, P. M., N. Y. Star, N. Y. Sun (morning and evening editions), N. Y. World (morning and evening editions), N. Y. American, Wall Street Summary, Financial America, N. Y. Evening Post (before it became a tabloid), the N. Y. Graphic (a McFadden tabloid) and the old N. Y. Daily News which existed as a regular newspaper from 1855 to 1906, long before the present tabloid "Daily News" started.

The "Sun's" journalistic standards and ideals will long be traditions in the newspaper world, in which it was regarded as a "newspaper man's paper."

It was in its January 4th evening issue that Thomas W. Dewart, publisher of "The Sun," made the following statement as to the cause of the paper's embarrassment which we give here in part:

"With profound regret we announce to our readers and staff that with today's editions The New York "Sun" will cease to exist as a separate journalistic force. Its name and goodwill will have been sold to the New York "World - Telegram," a Scripps-Howard newspaper. We of "The Sun" urge our readers to give to the new "World-Telegram and The Sun" the same loyal support which they and their predecessors for generations have given to us. It is the hope and desire of everybody concerned that this association will give to America's largest city the best and strongest afternoon newspaper in the United States.

"Mounting costs of production, unaccompanied by commensurate increases in advertising revenues, have made some such course inevitable. Chief among the rising costs have been those of labor and newsprint. Our working force is almost wholly organized and our relations with the workers have always been friendly and cordial. But the simple truth is that union demands have become too great for us to meet in the face of serious losses in income. In this time of rising costs we are compelled to protect the interest of our bondholders, most of whom are our employees. The fact is, and we say it without bitterness or recrimination, that the demands of the unions have wrought here in New York — what they are working elsewhere throughout the nation—an unprecedented and increasing number of casualties among newspapers which once were great and strong.

"Despite continued warnings of the economic consequences, various unions have forced and are continuing to force, higher wages, until, in the newspaper business as a whole, these have risen beyond reason. In the ten-year period from 1939 to and including 1949, the average advance in individual pay of "The Sun's" employees was 80.4%. In the same period, the price of newsprint rose from $48 a ton to $100 a ton. Prices of all other supplies increased in corresponding ratios."

Charles Anderson Dana

As a newspaper editor Charles Anderson Dana, of the "Sun" was **a leading exponent of the highest form of journalism and it should be said that his editorials were not excelled by** any of his contemporaries **for** fluency, lucidity, forcible English, brevity, clear thinking or literary qualities.

Throughout its long existence, "The Sun" bore Charles Anderson Dana's impress and style for sparkling wit, wisdom and philosophy which a legion of "Sun" men, trained in the Dana tradition, injected into the daily grist of news, editorials and stories up to and including the fateful closing issue Jan. 4.

Men Who Made the "Sun" an Outstanding Paper

For years, the "Sun's" political and social editorials were nationally known and its human interest writings like Francis P. Church's "Is There a Santa Claus?" and Harold M. Anderson's "Lindbergh Flies Alone," and countless others are classic examples of newspaper writing.

To us and to generations of newspaper readers, the New York "Sun" represented journalism at its best. The "Sun" numbered a memorable list of newspaper publishers and editors in its long history of accomplishments, beginning with Benjamin H. Day 1833-38; Moses Yale Beach 1838-48; Alfred Ely Beach 1845-52; Moses Sperry Beach 1852-68; Charles Anderson Dana 1868-97; Paul Dana 1898-1902; William M. Laffan 1902-1909; Edward P. Mitchell 1909-11; William C. Reick 1911-16; Frank A. Munsey 1916-25; William T. Dewart 1926-44; William T. Dewart, Jr., 1944-1946 and ending with Thomas W. Dewart 1946 to 1950.

The Editors of the "Chronicle" join in this friendly overture:

May the "Sun's" spirit and brilliance continue to shine through the columns of its new luminary, the "World-Telegram."

***Writer of "Why a New League of Nations Will Not Insure Permanent Peace," in "The Chronicle," March 9, 1944, and a "Reply to Critics" of this article, March 30, 1944; also "Peace by Force in an Uncivilized World," Nov. 16, 1944; "Are Americans Isolationists?" Jan. 11, 1945; "The Failure of the White Man's Civilization," March 22, 1935; "How President Truman Can Regain his Lost Prestige," Feb. 13; "Is Capitalism the Cause of Wars?" Nov. 27, 1947; "A Critical View of American Politics," Oct. 28, 1948; "Straight from the Shoulder Advice to Gov. Dewey," July 15, 1948 and: "Can America Prosper without Foreign Trade?"—July 29, 1948. "A Plan for Solving the British Crisis," Sept. 22, 1949.**

Our Reporter's Report

The mounting drift toward pensions in industry promises to pose a major problem not only for those who must invest funds accumulating from such plans, but for certain of the larger institutional investors as well, it is now evident.

Time was not too long back, when the latter could throw their weight around with considerable effect and frequently they have been able to secure terms in keeping with their own ideas on new issues.

But it is conceivable that from here in they will be forced to share such strength with those institutions, company-managed or otherwise, which will be seeking outlets for pension funds.

Lively interest was shown in Commonwealth Edison Co.'s $49,000,000 of new debentures. Successful bidders took this issue at a price of 99.57699 for a 2¾% coupon. The second highest bid was only about 1.7 cents per $100 bond lower while the lowest of four bids was but 12.7 cents per $100 under the best.

The successful group reoffered the issue at 100¼ to yield about 2.74%. For a time after the deal was closed inquiry was reported decidedly light from potential buyers.

But later one of the big company trust funds was reported a fairly substantial buyer, and within a brief time it was understood that about one-half the big offering had been spoken for.

Gain for the Issuer

Prospective corporate borrowers naturally will find this entry of pension funds into the market on a larger scale all to their liking. Heretofore they have had to give due weight to the ideas of prospective institutional buyers with regard to yield.

Meanwhile investment bankers, with an eye to the same considerations, have been more or less forced to cut their prospective margins on a given piece of business pretty close to the minimum.

With the growing accumulation of retirement funds likely to be pressing the market these conditions may be accentuated. There is at least one saving feature. The pension funds, too, must earn a return on their money, though it is a bit too early to discern just what will be viewed as the base yield.

Pacific Lighting Co.

Pacific Lighting Co.'s offering of 100,000 shares of new $4.40 dividend, no par cumulative preferred, a negotiated deal, brought out at a price of $101.50 a share, proved a fast mover.

Dealers reported brisk demand for the shares, and it was indicated that early announcement of closing of the books could be expected on this one.

The issuer will use the proceeds to liquidate outstanding bank loans and to finance construction and expansion programs of subsidiary companies.

Appropriate Setting

Current absorption of railroad bonds in the seasoned market promises all that investment bankers could wish for in the way of a proper "back-drop" for the impending Chicago, Rock Island & Pacific RR. undertaking.

Largest carrier undertaking in many months, Rock Island's $55,000,000 issue of new bonds will be up for bids next Wednesday and competition should be keen.

The road's purpose in floating the new bonds is to consolidate its currently outstanding funded debt into a single issue.

Niagara Mohawk Power

Next Tuesday will bring to market another of those large public offerings arising from integration plans of public utility companies.

Niagara Mohawk Power Corp. will open bids that day (Jan. 17) on $40,000,000 of 30-year general mortgage bonds. The issuer is a consolidation of a number of up-state power companies.

Proceeds will be applied to payment of $38,500,000 of bank loans obtained in the past two years to finance construction of constituent companies and the parent company itself.

It is expected that some $43,000,000 will be required this year to carry the program through to completion.

Blyth & Co., Inc. Group Offers Pacific Lighting $4.40 Preferred Stock

A nationwide syndicate of underwriters headed by Blyth & Co., Inc., on Jan. 10 made public offering of 100,000 shares of Pacific Lighting Corp. $4.40 cumulative preferred stock (no par value) at $101.50 per share, plus accrued dividends from Jan. 15, 1950.

Proceeds from the sale of the stock will be applied by the corporation against its outstanding bank loans, which funds were used by the corporation to finance in part the construction and expansion programs of its subsidiaries and for general corporate purposes.

At the conclusion of the current financing, the corporation's capitalization will consist of 300,000 shares of $4.50 dividend preferred stock, 100,000 shares of $4.40 dividend preferred stock, and 1,930,357 shares of common stock. Dividends have been paid on the common stock every year since 1908, the present annual rate being $3 per share.

Pacific Lighting Corp. is not a public utility, but is primarily engaged in the purchase, transmission and sale of natural gas under special contracts, principally to its subsidiaries, Southern California Gas Co. and Southern Counties Gas Co. of California. These two latter companies are public utilities.

The corporation and its subsidiaries, from the standpoint of number of customers served constitute the largest natural gas system in the United States, supplying natural gas to approximately 1,350,000 meters serving an area with a population in excess of 5,000,000 located throughout the major portion of Southern California.

With Inv. Research Corp.

BOSTON, MASS.—Frederick H. Stephens is with Investment Research Corp., 53 State Street.

Continued from page 3

Labor's Fringe Benefits —Investment or Expense?

labor scarcity and wage controls as well as the waste-encouraging excess profits tax stimulated a rapid growth of insured pension and profit-sharing pension plans, approved for income tax purposes.

How many of these fringe and wage - supplementary items will become matters of compulsory collective bargaining under the aegis of a National Labor Relations Board, disposed to push up the cost of putting men to work, cannot now be determined.

If pensions are removed from the field of voluntary, deliberative action, and forced into collective bargaining, why not all fringe and other wage-supplements?

Considering the power and dynamism of organized labor today, coupled with the newly established legal compulsion of "bargaining" over pensions, we are now confronted with a strange, compulsory dual-approach to pensions. First, the Congress legislates compulsory old-age and survivors insurance, and along comes a government bureau, without legislative authorization to deal with pensions, nevertheless in effect ordering a super-pension on the pension layer provided for by the Congress.

"The pension debate is no place for shmoo economics"—So says a lead editorial in the **Baltimore Sun**, Nov. 28th. The world of shmoo is a costless one. Anything can be had for nothing.

Nowadays, few people oppose the government old age insurance and assisting programs. Few oppose supplementary voluntary private pensions. When collective bargaining enters the picture, the word "voluntary" has to be put in quotes becouse of the haste, the pressures, the duress, the strikes and threats of strikes. Sumner H. Slichter says it was a blunder for the Steel Industry Board to recommend union negotiated plans for the steel companies.

Nineteen forty-nine was not too good a year for a fourth round of wage increases. Markets were soft and unemployment was rising. This was decided to be a good year for pensions. Pensions have a far-away sound; the benefits of which are deferred and therefore, presumably the costs also are deferred. The American people are always sympathetic with the problem of need and poverty. The Steel Industry Board decision of September 10th is making more history than it anticipated. Mrs. Eugene Meyer calls it "A disastrous blow to the whole American concept of insurance."

Actually, of course, there is no practical way by means of which a nation can save for its old age. Today's pensioners must live off the product of today's workers. This will be so tomorrow and tomorrow. All that a pension system can do is to lay up some legal claims in behalf of today's workers and against the workers of tomorrow when the workers of today retire.

When a few companies have pension plans, no great national economic or financial problems arise; but when these programs become generalized across the economy, and pressures are put on all employers, new economic problems stare us in the face.

Many think that if these private plans are not funded, they may be unsound. But, if they are funded, where will we find enough investment securities into which the reserve funds can be placed? If they were so funded, and generalized across the economy, we would require some hundreds of **billions** of dollars of reserve investments to take care of past service liabilities and currently accruing liabilities.

Any society is willing to save out of current income only a certain, rather limited fraction of that income. If, now, we divert a large proportion of current savings into riskless investments, the supply of risk or equity capital will be shrunk just that much more.

If pensions are widely adopted throughout American industrial and commercial enterprises they will have to be put on a "pay-as-you-go" basis. This will inevitably lead to many disappointments. Loose administration may occur. Firms go bankrupt, they shrink in size, they have financial troubles. The coal miner's welfare fund is already insolvent; others have previously reached that stage, still others will do so.

Private pension plans put a heavy penalty on hiring older workers. The Massachusetts State Federation of Labor has already urged $500 fines or imprisonment for employers who discharge or refuse to hire workers between 45 and 65.

It is safe to predict that if the current demand for pensions across the economy is acceded to, the Federal and State Governments will institute detailed and elaborate controls, and only a

little less probable is the prospect that the Federal Government will take them over in time.

Life Insurance

For many years employers have widely carried life insurance on their employees, usually in modest proportions, employers paying the premium, unless the worker desired additional insurance, in which case frequently the cost of further premiums was shared by workers and employers. In addition, many employers pay death benefits not covered by insurance.

Union demands for group insurance and paid sick-leave plans continue to be a major issue in collective bargaining, but the number of plans incorporated into union contracts is limited. Clearly, though, group insurance and paid sick-leave are also on the way to becoming matters of compulsory collective bargaining. Royalties on phonograph records and coal production are matters of recent memory and controversy.

The Department of Labor has recently reported that more than three million workers—over twice the number in early 1947—were covered by some type of health, welfare, and/or retirement benefit plan under **collective bargaining** agreements by mid-1948. Hospital insurance, and more recently, surgical insurance are becoming more common.

Non-Production Bonuses

In another survey by the Department of Labor it was found that non-production bonuses were paid by two-fifths of the manufacturing and about half of the non-manufacturing establishments surveyed during 1945 and 1946. Christmas bonuses were by far the most common and were paid in over four-fifths of the concerns which provided bonuses. Profit-sharing bonuses were second. Bonuses generally raised hourly rates of pay by less than 1c for plant workers and 2c for office workers, although some establishments in nearly all industries made average payments of at least 10c per hour or about $200 per employee.

In addition many companies suffer cafeteria losses, pay transportation costs, give employees discounts on goods purchased, and provide recreational facilities. The list could be greatly extended.

Last year the Chamber of Commerce of the United States made a comprehensive field study, the first of its kind, of the magnitude of these nonwage costs and sources of income. Covering several hundred companies we found that the average nonwage payments represented an addition to the labor costs of doing business equal to 15.4% of the total wage bill. They represented an additional 20.5c per hour worked, or $424 per year per employee. This included compulsory social insurance but represented only the employer's costs. The range for individual companies was from less than 5% to more than 42%. Industry averages ranged from 9.8% to 23.4%, in a few cases over $1,000 per employee.*

NON-WAGE PAYMENTS

Item—	As Per Cent of Wages Paid for Time Worked	Cents Per Hour Worked	Dollars Per Year Per Employee
25% of firms paid more than	19.3%	25.7c	$525
50% of firms paid more than	14.4	18.2	389
75% of firms paid more than	10.4	13.0	270
Mean or average payment	15.4%	20.5c	$424

This analysis makes it perfectly clear that the Department of Labor's figures on wages no longer represent either labor costs to the employer, nor income to the worker with any degree of accuracy. We have been urging the Bureau of Labor Statistics to correct this deficiency, and while nothing tangible is in prospect, the government officials are aware of the deficiency in their data.

Because of this hiatus, the Chamber of Commerce of the United States is repeating its survey to cover 1949 data, our previous survey having been based on 1947 data. We will welcome hearing from any employer who would like to cooperate in the new survey. Perhaps the National Retail Dry Goods Association could make a similar survey among its entire membership and allow us to incorporate summary findings in our report.

Compulsory Payroll Levies Upon Employers

A word must be said about compulsory social security costs and benefits. **Compulsory** social security for employees covers four phases:

(1) Workmen's compensation for industrial accidents and diseases.

(2) Non-occupational disability in three States and in the case of railroads.

(3) Unemployment compensation.

(4) Old-age and survivors insurance.

Considerable expansion in several of these programs is in prospect. Allowing only for current and urgently proposed plans, one study indicates that the total cost of compulsory programs will amount to from 20 to 23% of payroll, the bulk to be borne by employers. The following is summary of this analysis:

Cost as Percent of Covered Payroll

Program—

(1) *Old-Age and Survivors Insurance.* Under existing benefit provisions cost will come to 6 to 8% of payroll. Pending proposals to increase benefits and to add disability protection, along with other proposed liberalizations, will more than double these figures. So—and it's a fair estimate—let's say ---- 14%

(2) *Socialized Medicine.* No one knows what a system would cost in the United States. Certainly statements by proponents cannot be taken as a guide. However, foreign experience and some domestic studies suggest that such a system could not operate on less than ---------------- 5

(3) *Unemployment Compensation.* More than 12 years of experience indicate that this type of protection costs about ---------------- 2

(4) *Workmen's Compensation.* The cost, because of experience rating, varies widely; as a rough average, however, this protection costs ---------------- 1

(5) *Cash Sickness Insurance.* Our limited experience suggests that this program costs at least ---------------- 1
(More, if cash maternity benefits are provided).
Total of the foregoing is 23%

We Need More Facts

These payments for time not worked and for employee benefit programs have seldom been segregated and totalled by any company. Some of them are merely absorbed as payroll costs, some are charged to insurance, some to taxes, and many of them are just hidden. They are the hidden payroll, invisible labor costs, a fancy fringe on top of the wage structure which ought to be brought out into the open so that all business executives can see the size and nature of these costs. They ought to be reduced to cents per hour of time actually worked. We should get the facts.

Who Ultimately Meets the Invisible Payroll?

Who bears the burden of the contributions assumed voluntarily and imposed by law and by collective bargaining and outlays for periods of not working?

With respect to the employer's share, even though the employer is responsible for payment of the premiums or taxes to the tax collector, this does not necessarily mean that these programs are a burden on the employer or on profits. We always have marginal producers in nearly every line of business, and we have some industries which, as a whole, are marginal or virtually profitless. For these marginal producers, the payroll taxes and other fringe payroll costs are indeed a burden and must be paid even though losses are sustained.

The readiness with which employers have assumed additional programs is due to the highly liquid position of business and the excessive supply of money which has permitted the rapid advance of prices. So long as the money supply is superabundant, it is relatively easy to pass new costs on to the consumer in the form of higher prices. If these total benefit and other payments for not working amount to somewhere between 15 and 25% of the payroll, as appears to be the case, obviously, such a sizable amount could not normally be absorbed by industry out of profits.

How this increased tax burden, or cost burden, is borne is admittedly a complicated problem. Under American business policy, which is said to be the only business system in the world which bases its prices on costs, there is a strong tendency to attempt to recover these costs and thereby transfer such tax costs, along with the other costs, into the price.

In periods of weak markets, or in the case of high-cost firms and marginal industries, these new burdens will undoubtedly impinge upon profits. In those same slack periods, however, these burdens will also inevitably retard wage increases. There is not much support for the view, however, that in the long run these burdens rest on profits.

Students of the incidence of payroll tax burdens generally conclude that part of the tax is shifted to the employee in retarded wage increases and part of it is transferred to and recovered in the price. Some years ago a study made in England showed that the increased outlays for social security and public welfare programs were almost exactly offset by proportionate increases in taxes on the poorer groups, taxes on beer, tea, and other items.

If this view is correct, this means that the wage earners, who constitute the majority of the consumer group, bear the bulk of the burden of these benefit programs, either in lower wages or in higher prices.

If this is the case, should the employer resist the tendency for more and more payments for shorter and shorter actual input of hours per week?

The answer must run partly in terms of human values. Workers evidently prefer to receive part of their pay in the form of these benefits. Clearly, many employers have fostered and welcomed the growth of these social security and other programs. In part it is a choice between more leisure and more goods. In part it is a choice of spreading income more evenly over time. For the most part, these are payments for not working. They constitute money outlays with no comparable production offsets.

A distinction must be drawn, however, between the incidence of a sales tax and a levy of one kind or another measured by payroll. A sales tax is a penalty on the demand for commodities, and tends to become absorbed in the cost and price structure. A payroll levy including cost burdens for not working constitute a **levy upon a factor of production,** on the demand for labor. Instead of putting a premium upon putting men to work, they are a penalty on jobs. One of these days we may have more widespread unemployment again. If we make it expensive through managerial and public policy to put men on the payroll, we may unwittingly help generate and perpetuate unemployment.

For this reason, it is that much more important that we assemble all the evidence on the scope of this fancy fringe which we have placed on the payroll structure in recent years.

Money Versus Real Income

Common sense shows that if every workman is paid an hour a day for portal-to-portal time, or warming-up time, or whatever may be the label, this does not produce more food, more shoes, more cars, more houses, or more coal. It may provide more dollars, but common sense suggests that payments for doing nothing cannot augment the standard of living of our people. The only purchasing power, viewing the country as a whole, of which each of us is a part, is the production of more goods and more services. Money is a mere medium of exchange.

Conclusion

We appear to be developing a new type of feudalism. The laborer, by virtue of being a worker no longer strives for the best job, the best wage and the best deal he can get **on his own merits.** Rather he resigns himself as a member of a group, a union, and the union or the union leader does his thinking for him as well as his bargaining for him. He is a member of a class, he has class status. He gets none too much inward satisfaction out of such status and sooner or later he will react against this semi-feudal situation.

Now, along come a whole series of social security and other benefits which he gets not on the basis of individual merits primarily but on the basis of the group, on the basis of a job. His benefits in reality attach to the job and he gets them only because he gets the job. He may react in time to the status into which this also pigeonholes him. On a larger front we have the developing welfare state.

Because of the great growth of social and welfare legislation, farm support and social security programs, this development has been labelled the welfare state. While the welfare state embraces a great variety of programs including social insurance of many types, the basic principle of the welfare state is that incomes of people should not be dependent, or too closely dependent, upon their contribution to production. Payments based on some measure of need, rather than earnings based upon work done or accomplishment, is the basic principle of the welfare state.

In 1929 about $1.2 billion were paid out on a needs basis. By 1947, this figure had risen to $12 billion, or nearly 6.2% of all personal income. In 1947 these payments based on need were 75% greater than the dividend disbursements of all American corporations.

The alarms and fears raised by the growth of the welfare state are due to the recognition that underlying all welfare and security must be production. If more and more we separate income from productive contribution, we create larger and larger burdens on the productive elements in the economy, and at the same time we impair to some extent the incentives to produce on the part of both the beneficiary of these payments and the producing elements who must carry the unproductive elements.

Welfare state, fringe benefits—investment or expense? Who knows? No doubt some of each, case by case. But in the final showdown, only the outpouring of more goods and services constitute genuine security and progress. And business management, somehow, will be held accountable for this outpouring.

*"The Hidden Payroll," Chamber of Commerce of the United States, Washington, D. C., 1948, 50c.

LIQUIDATION NOTICES

The First National Bank of Winsted, located at Winsted, in the State of Connecticut, is closing its affairs. All creditors of the association are therefore hereby notified to present claims for payment to the undersigned at said bank.
CLARENCE H. BUNNELL, Liquidating Agent.
Dated December 9, 1949.

The Hurlbut National Bank of Winsted located at Winsted, in the State of Connecticut, is closing its affairs. All creditors of the association are therefore hereby notified to present claims for payment to the undersigned at said bank.
EDWARD F. McARDLE, Liquidating Agent.
Dated December 9, 1949.

DIVIDEND NOTICES

Spencer Kellogg & Sons, Inc
BUFFALO 5, N. Y.
DIVIDEND No. 225
The Board of Directors has this day declared a quarterly dividend of 50c per share on the outstanding Capital Stock of the Company, payable March 10, 1950, to Stockholders of record at the close of business February 10, 1950.
JAMES L. WICKSTEAD, Treasurer.
January 12, 1950.

THE COLUMBIA GAS SYSTEM, INC.
The Board of Directors has declared this day the following quarterly dividend:
Common Stock
No. 61, 18¾¢ per share
payable on February 15, 1950, to holders of record at close of business January 20, 1950.
DALE PARKER, Secretary
January 5, 1950

COLUMBIAN CARBON COMPANY
One-Hundred and Thirteenth Consecutive Quarterly Dividend
A quarterly dividend of 50 cents per share will be paid March 10, 1950 to stockholders of record February 15, 1950 at 3 P.M.
FREDERICK H. STOKES, *Secretary*

The Board of Directors of **Wentworth Manufacturing Company** has declared a dividend of twelve and one-half cents (12½c) per share on the outstanding common stock of the Company, payable on February 21, 1950, to stockholders of record at the close of business February 1, 1950.
Checks will be mailed.
JOHN E. McDERMOTT, Secretary.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — After analyzing the President's kick-off for the 1951 political season, in the form of the three messages to Congress, the dopesters in the Congressional benches think they have just about got an idea what kind of a game Captain Truman intends to play this year.

They believe that Mr. Truman wants first of all to avoid "rocking the boat" so far as he can this year. Of course the President cannot, because of past commitments, turn the 1951 session into a peaceful affair. He is committed to trying to succeed with plays to please the three groups to whom he is appealing, the unions, the farmers, and the minorities.

Hence, Mr. Truman probably cannot avoid stirring up the boys somewhat with demands of more than a perfunctory nature for action on the Brannan plan, repeal of Taft-Hartley, and the enactment of "civil rights" and liberalization of the Displaced Persons Act.

On the other hand, Mr. Truman was much more passive than in many a moon in reciting these and other numerous recommendations. He was almost gentle and backward, and was neither aggressive nor name-calling.

In fact, all three of his messages gave the apperance of listing the choicest political bargains available for the customers, in a sort of mail-order catalog form, with a restrained blurb as to the advantages of each and all.

So in Congress the impression prevails that Mr. Truman appears confident that the "Fair Deal" line is still the merchandise the customers will want in 1951. He feels that his principal job is to hawk the wares occasionally, to let the customers know what he has got.

In particular, the President's confidence is such, it is believed, that unless something happens to change the outlook, Mr. Truman will be far less aggressive in trying to "get all" from Congress than he was last year, and may even privately be quite happy if most of what he wants is turned down. To again change the metaphor, he will be quite content to stand pat with his hand through the forthcoming November elections.

This overall evaluation of Mr. Truman's state of mind is limited to the presently-available signs based on the present outlook. Let business get worse, or let it appear that economy is as saleable as some of the conservatives think it is, and it would be reasonable to expect Mr. Truman's signals to change sharply, as well as the voice in which he calls them.

* * *

A great deal has been made of the President's be kind to business week between Jan. 4 and Jan. 11. In general, the President avoided asking for direct controls over prices he asked last year, and gave no direct boost to the left-wing line that if business won't do what the government wants, then the government had better go into business. The President almost sounded as though he liked business. He had some pleasant words to say for the private enterprise system. It's a cinch that the President likes business so long as everything businesswise seems to break favorably for Mr. Truman.

Mr. Truman's problem at present, however, is far different from his problem of a year ago and two years ago this January. From mid-1947 until early in 1949, the country was undergoing a lovely boom which for the most part pleased everybody, the only gripes being shortages of the good things to buy with boom income and the fact that the other guy's product and service also sold for a high price.

So in 1947, 1948, and early 1949, the President's only problem was to enjoy the boom whilst blaming the scapegoat, business, for shortages and the high cost of living.

Now the shortages are out of the way and the upward pressure on prices has abated. The boom continues on a marvelously high, if reduced plane, and there isn't much point in sending business to the whipping post.

Hence the President is "pro-business" in about the same sense as a very full and surfeited bobcat is pro-chicken if a chicken happens to pass some distance away during the bobcat's torpor.

Conservatives, noting the superficial interpretation of the President's messages as being not anti-business, were quick to observe that Mr. Truman has renounced not one of his objectives. He still asserted government's responsibility for full employment, a constantly expanding economy, the right to treat the nation's financial resources as something to handle for political objectives, the promotion of social security and health insurance, and, last but not least, the premise that natural resources "must be regarded as a public trust."

In other words, they noted, the bobcat, while full, has not renounced chicken.

* * *

Net effect of the Administration's new cooperative housing bill is merely to take cooperative housing from the Federal budget and make it a contingent government liability. The original "median income" housing bill, pending in the Senate, provided that the government would lend $1 billion of Treasury money to housing cooperatives. Then members of both House and Senate Banking Committees enjoyed a nice trip to Scandinavia to study cooperative housing.

They came back steamed up for Swedish cooperative housing. Under the Swedish plan private interests lend the primary mortgage money, and local and national governments, two to three junior mortgages in a complicated system, they explained. Something like this ought to happen in the United States, they said. So the drafting of a bill to carry out these ideas was the job given to Raymond Foley, Administrator of the Housing and Home Finance Agency.

The bill that Ray Foley came up with and passed on to Sen. John Sparkman of Alabama, is fundamentally the same bill pending in the Senate except that instead of direct Federal loans, the loans are indirect, through government guarantees of cooperative and other non-profit housing bonds.

If this is adopted, this will dress the budget up by at least a billion. There are at least two other proposals being given serious consideration within the Administration, and are of a like nature. If adopted — and they are within the powers of the Administration under existing law — they will permit a shifting of expenditures to "private" hands, to give the appearance of "saving" upward of $1.5 billion of budget expenditures. One plan will be decided one way or another within a month. The other will become apparent next Spring.

* * *

Almost entirely overlooked was the unusual procedure adopted by Rep. Joseph W. Martin, Jr., of Massachusetts, the Republican House leader, in "answering" President Truman's Annual Message to Congress. Press reports picked up the Martin statement, along with scores of other reactions, pro and con, to the Presidential pronouncement.

Mr. Martin's statement was unusual in its uncompromising attack upon the entire Truman line. It was a positive indication of avoiding "me-tooism," a flat negation of the entire Truman approach.

Its most unusual feature, however, Republicans noted, was its way of handling. Instead of issuing a personal statement as a Minority Leader, Rep. Martin announced that he was submitting the statement to every Republican member of the House to approve or disapprove. As of its issuance, in mid-afternoon on Jan. 4, 104 Republican members had signed the statement. Mr. Martin explained that the names of the signers would be withheld until every Republican member of the House had been given an opportunity to sign if he wanted to.

Although this is a polite invitation by Mr. Martin to the Republicans to "follow me," it has a blunt side. By publishing the names of those who will take the all-out anti-Truman line, Mr. Martin is by inference turning the spotlight upon those Republicans who are unwilling to go all out against Mr. Truman.

So Mr. Martin has, in effect, staked his leadership of the Republican minority upon a total fight against Mr. Truman's legislative program—or at least that is said to be the fair inference of his statement and its method of release. It would seem as though Mr. Martin had served notice that it was his intention of leading firmly in only one way—in the way of straight-out opposition to the President's program.

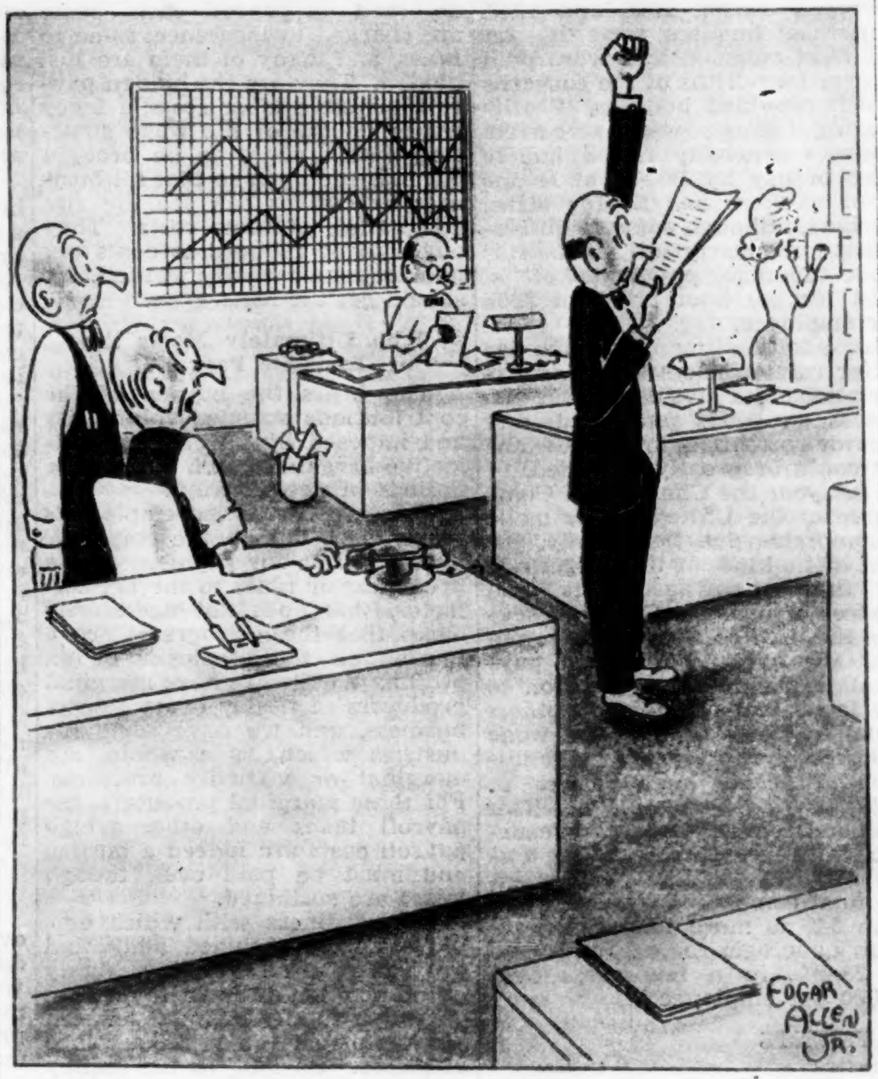
* * *

If you want to know the book which currently is getting the most serious attention from conservatives in Congress, it is John T. Flynn's "The Road Ahead," published in 1949 by Devlin-Adair.

Thesis of this book is that the reaching forward of the "Fair Deal" for new powers and new undertakings is not just a mere grabbing on to politically salable products from election to election, **but it is part of a concerted program to bring de facto Socialism to the United States. There is asserted to be an analogy between the way the Fabians worked in England to take over the Labor Party to promote Socialism, and the way certain groups operate in the U. S.**

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"Twittle has traveled on the subway for so many years he can't read anything in any other position!"

Halsey, Stuart Offers Lawrence Gas Bonds

Halsey, Stuart & Co. Inc. is offering publicly today (Jan. 12) $2,750,000 Lawrence Gas & Electric Co. first mortgage bonds, series A, 2⅝% due Dec. 1, 1979, at 100.518% and accrued interest. Award of the bonds was won at competitive sale Jan. 11 on the firm's bid of 100.062%.

Proceeds will be used to redeem $1,500,000 of first mortgage bonds, series A, 3⅛%, due July 1, 1968, at 102¼%; to pay off $1,000,000 in bank notes; and for the cost of additions to plant and property subsequent to Jan. 1, 1949.

General redemption prices for the new bonds range from 103.52% to 100% while special redemption prices are scaled from 100.52% to 100%.

The company's business, conducted entirely within Massachusetts, is principally that of the generation, purchase and sale of electricity for light, heat, power, resale and other purposes and the manufacture and sale of artificial gas for general use.

With Gross, Rogers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Harry J. Bastion has joined the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Buckley Bros. and G. Brashears & Co.